

107-2020

**REED CITY, MICHIGAN**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2004**



**AUDITING PROCEDURES REPORT**

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

|   |                                    |   |  |                   |
|---|------------------------------------|---|--|-------------------|
| Local Government Type<br><input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other |                                    | Local Government Name<br>CITY OF REED CITY                      |  | County<br>OSCEOLA |
| Audit Date<br>JUNE 30, 2004   | Opinion Date<br>SEPTEMBER 17, 2004 | Date Accountant Report Submitted to State:<br>NOVEMBER 30, 2004 |  |                   |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

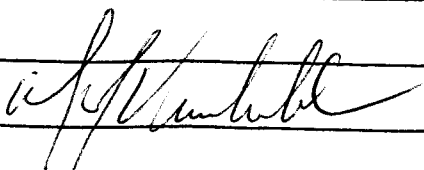
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☒ yes ☐ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

**We have enclosed the following:**

|   | Enclosed | To Be Forwarded | Not Required |
|---|----------|-----------------|--------------|
| The letter of comments and recommendations.                                   |          |                 | X            |
| Reports on individual federal financial assistance programs (program audits). |          |                 | X            |
| Single Audit Reports (ASLGU).   |          |                 | X            |

|   |  |                      |             |
|---|--|----------------------|-------------|
| Certified Public Accountant (Firm Name)<br>REHMANN ROBSON   |  |                      |             |
| Street Address<br>PO BOX 6547   |  | City<br>GRAND RAPIDS | State<br>MI |
| Accountant Signature<br> |  | ZIP<br>49516-6547    |             |

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**REHMANN ROBSON**

*Certified Public Accountants*

A member of THE REHMANN GROUP

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## **INDEPENDENT AUDITORS' REPORT**

September 17, 2004

Honorable Mayor and Members of  
the City Council  
City of Reed City, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Reed City, Michigan, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the City of Reed City, Michigan. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented components unit, each major fund, and the aggregate remaining fund information for the City of Reed City, Michigan as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for each major fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 17, 2004, on our consideration of the City of Reed City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

As described in Note 12, the City adopted the provisions of Governmental Accounting Standards Board Statement Nos. 34, 37, and 38 and GASB Interpretation 6 as of and for the year ended June 30, 2004. This results in a change to the format and content of the basic financial statements.

The Management's Discussion and Analysis on pages 3-11 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Reed City's basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the City of Reed City's basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of basic financial statements and, in our opinion, are fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

*Rehmann Lohman*

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**



## Management's Discussion and Analysis

As management of the City of Reed City, we offer readers of the City of Reed City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

### Financial Highlights

- The City's commitment to public safety was supported by 22 % of governmental expenditures.
- State Revenue Sharing was reduced by 7%.
- The City refinanced a 1990 Water & Sewer Bond, which resulted in a savings of \$45,083.
- Water and Sewer Rates were increased for the first time since 1993.
- The new Fire Station was completed and dedicated on September 6, 2003.
- The City's net assets totaled \$10,801,574

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Reed City's financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused compensated absences).

Both of the government-wide financial statements distinguish functions of the City of Reed City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government administration, police, public works including major and local street maintenance and recreation and cultural activities. The business-type activities of the City include sewer and water services.

The government-wide financial statements can be found on pages 12-14 of this report.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Reed City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains eighteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the following three funds: General, Major Streets, and Maplewood Special Assessment.

Data is combined into a single aggregated presentation for the other fifteen governmental funds. Individual fund data for each of the non-major governmental funds is provided in the form of *combining statements and schedules*.

The City adopts an annual appropriated budget for its general, special revenue funds, and other funds as necessary. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 15-21 of this report.

**Proprietary funds.** The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses an enterprise fund to account for its Sewer and Water operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for its fleet of vehicles. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the Sewer and Water operations, which is considered to be a major fund of the City.

The basic proprietary fund financial statements can be found on pages 22-24 of this report.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resource of those funds are *not* available to the support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The fiduciary fund financial statement can be found on page 25 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 26-41 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this management discussion and analysis.

Combining and individual fund statements and schedules can be found on pages 42-52 of this report.

### **Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Reed City, assets exceeded liabilities by \$10,801,574 at the close of the most recent fiscal year.

A little less than 16% of the City's net assets reflects unrestricted net assets which are available for future operations while a significant portion (78.9%) of net assets is invested in capital assets (e.g., land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Because this is the first year of implementation of Government Accounting Standards Board Statement No. 34, which requires this new reporting model, the following tables present only current year data. In future years, when prior-year information is available, comparative analysis of government-wide data will be presented.

### City of Reed City Net Assets

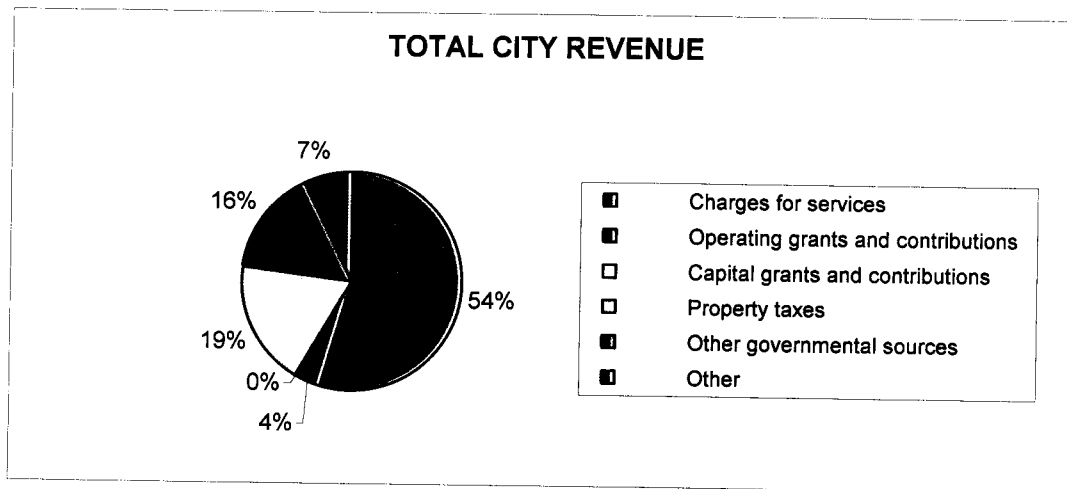
|  | <u>Governmental<br/>activities</u> | <u>Business-type<br/>activities</u> | <u>Total</u>               |
|--|------------------------------------|-------------------------------------|----------------------------|
| Current and other assets                           | \$1,520,107                        | \$ 1,103,261                        | \$ 2,623,368               |
| Capital assets                                     | <u>2,021,377</u>                   | <u>8,924,515</u>                    | <u>10,945,892</u>          |
| Total assets                                       | <u><b>3,541,484</b></u>            | <u><b>10,027,776</b></u>            | <u><b>13,569,260</b></u>   |
| Long-term liabilities outstanding                  | 757,626                            | 1,598,982                           | 2,356,608                  |
| Other liabilities                                  | <u>195,952</u>                     | <u>215,126</u>                      | <u>411,078</u>             |
| Total liabilities                                  | <u><b>953,578</b></u>              | <u><b>1,814,108</b></u>             | <u><b>2,767,686</b></u>    |
| Net assets:  |                                    |                                     |                            |
| Invested in capital assets, net<br>of related debt | 1,264,477                          | 7,260,570                           | 8,525,047                  |
| Restricted   | 269,078                            | 343,134                             | 612,212                    |
| Unrestricted                                       | <u>1,054,351</u>                   | <u>609,964</u>                      | <u>1,664,315</u>           |
| Total net assets                                   | <u><b>\$2,587,906</b></u>          | <u><b>\$ 8,213,668</b></u>          | <u><b>\$10,801,574</b></u> |

Net assets of the City increased by \$41,849 with the governmental activities showing additions to prior balances. The business-type activities decrease in net assets of \$29,822 was primarily the result of depreciation expensed as a part of operations. The governmental activities increase in net assets of \$71,671 is primarily due to higher than anticipated revenues and less than budgeted expenses.

### City of Reed City Changes in Net Assets

|                                    | <u>Governmental<br/>activities</u> | <u>Business-type<br/>activities</u> | <u>Total</u>              |
|------------------------------------|------------------------------------|-------------------------------------|---------------------------|
| Revenue:                           |                                    |                                     |                           |
| Program revenue:                   |                                    |                                     |                           |
| Charges for services               | \$179,818                          | \$1,552,871                         | \$ 1,732,689              |
| Operating grants and contributions | 128,957                            | -                                   | 128,957                   |
| Capital grants and contributions   | <u>-</u>                           | <u>-</u>                            | <u>-</u>                  |
|                                    | <u><b>308,775</b></u>              | <u><b>1,552,871</b></u>             | <u><b>1,861,646</b></u>   |
| General revenue:                   |                                    |                                     |                           |
| Property taxes                     | 592,353                            | -                                   | 592,353                   |
| Other governmental sources         | 502,358                            | -                                   | 502,358                   |
| Other                              | <u>212,214</u>                     | <u>20,463</u>                       | <u>232,677</u>            |
| Total revenue                      | <u><b>\$1,615,700</b></u>          | <u><b>\$1,573,334</b></u>           | <u><b>\$3,189,034</b></u> |

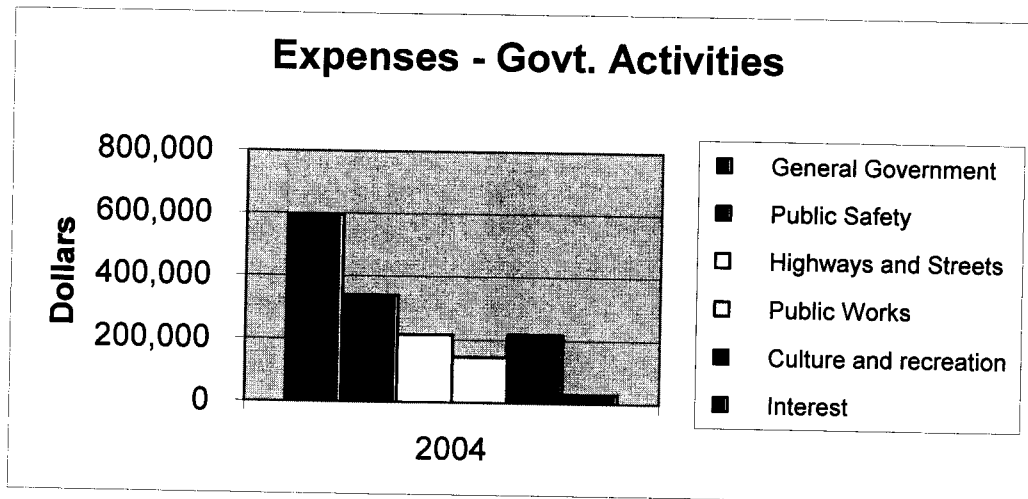
The Operating grants and Contributions figure includes penal fines for the Library and Township fire contracts for the Fire Department.



The amounts in Other Governmental Sources includes State Revenue Sharing, Act 51 Gas Tax funds and contributions from the Downtown Development Authority (DDA).

### City of Reed City Changes in Net Assets Continued

|                                | Governmental<br>activities | Business-type<br>activities | Total                      |
|--------------------------------|----------------------------|-----------------------------|----------------------------|
| Expenses:                      |                            |                             |                            |
| General government             | \$594,818                  | -                           | \$594,818                  |
| Public safety                  | 339,942                    | -                           | 339,942                    |
| Highways and Streets           | 215,682                    | -                           | 215,682                    |
| Public works                   | 145,865                    | -                           | 145,865                    |
| Culture and recreation         | 219,218                    | -                           | 219,218                    |
| Interest                       | 28,504                     | -                           | 28,504                     |
| Water & Sewer                  | -                          | 1,603,156                   | 1,603,156                  |
| Total expenses                 | <u>1,544,029</u>           | <u>1,603,156</u>            | <u>3,147,185</u>           |
| Change in net assets           | 71,671                     | (29,822)                    | 41,849                     |
| Net assets - beginning of year | <u>2,516,235</u>           | <u>8,243,490</u>            | <u>10,759,725</u>          |
| Net assets - end of year       | <u><u>\$2,587,906</u></u>  | <u><u>\$8,213,668</u></u>   | <u><u>\$10,801,574</u></u> |



**Governmental activities.** During the year the City continued its emphasis in public safety by investing \$339,942 or 22% of governmental activities expenses. Culture and recreation, which includes library operations was \$219,218 or 14% of governmental activities expenses while general government, public works and streets and interest on long-term debt made up the remaining 64% of governmental activities expenses.

The Governmental activities represented above included the Music and Art in the Park Program, engineering for the Westerburg Park renovation, completion of the Fire Station, conversion of financial and accounting software, paving of 4700 feet of streets, establishment of a Police Reserve, updating the City Master Plan, development and adoption of a sidewalk program, and the "One Book, Eight Communities" project.

**Business-type activities.** Although the net assets decreased by \$29,822 this amount is far less than the budgeted amount of \$220,000. These activities included updating the Sanitary Sewer map, implementation of a valve operating program, cleaning and inspection of the water tower, and installation of a new generator at the South WWTP.

### **Financial Analysis of the Government's Funds**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,126,642, an increase of \$33,392 in comparison with the prior year.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$336,110 which is equal to total fund balance. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents 30 percent of total general fund expenditures. The City Council's annual target is 25 percent of total general fund expenditures.

The fund balance of the City's general fund increased by \$9,522 during the current fiscal year.

The major street fund has a total fund balance of \$94,872, which increased by \$10,302 during the year. The local street fund also increased its fund balance by \$26,221 to \$49,463. These increases are due to lower than budgeted expenditures for routine and winter maintenance during the year. Planned paving and maintenance projects were completed.

***Proprietary funds.*** The City's proprietary funds provide the same type of information found in the government wide financial statements, but in more detail.

Unrestricted net assets of the sewer and water fund at the end of the year amounted to \$609,964. The fund had an decrease in net assets for the year of \$29,822. Factors concerning the finances of the fund has already been addressed in the discussion of the City's business-type activities.

### **General Fund Budgetary Highlights**

Differences between the original and final amended budgets for expenditures amounted to 5.5% for the year. Most of the increase is attributed to increases in revenue.

During the year, general fund revenues were less than budgetary estimates and expenditures were also less. An actual increase in fund balance resulted that exceeded the final amended budget amount by \$26,626. This positive change was the result of savings from benefit expenses and employees using accumulated leave. Effective budget management by Department Heads resulted in a variance of less than 2% between the amended budget and actual revenues and less than 4% for expenditures.

### **Capital Asset and Debt Administration**

**Capital assets.** The City's investment in capital assets for its governmental and business type activities as of June 30, 2004, amounted to \$10,945,892 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, furniture and equipment, motor pool equipment, motor vehicles, infrastructure and construction in progress, machinery and equipment. Significant capital assets acquired during the year consisted primarily the new fire station.

**City of Reed City Capital Assets**  
(net of depreciation)

|                           | <b>Governmental<br/>activities</b> | <b>Business-<br/>type<br/>activities</b> | <b>Total</b>               |
|---------------------------|------------------------------------|--|----------------------------|
| Land                      | \$ 88,994                          | \$ 30,305                                | \$ 119,299                 |
| Land improvements         | 108,872                            | -  | 108,872                    |
| Building and improvements | 1,250,269                          | 3,679                                    | 1,253,948                  |
| Furniture and equipment   | 217,326                            | 156,052                                  | 373,378                    |
| Motor vehicles            | 262,488                            | -  | 262,488                    |
| Infrastructure            | 67,694                             | -  | 67,694                     |
| Water system              | -                                  | 496,576                                  | 496,576                    |
| Sewer system              | -                                  | 8,237,903                                | 8,237,903                  |
| Construction in progress  | 25,734                             | -  | 25,734                     |
| <b>Total</b>              | <b><u>\$2,021,377</u></b>          | <b><u>\$8,924,515</u></b>                | <b><u>\$10,945,892</u></b> |

Additional information on the City of Reed City capital assets can be found in Note 6 on pages 34-35 of this report.

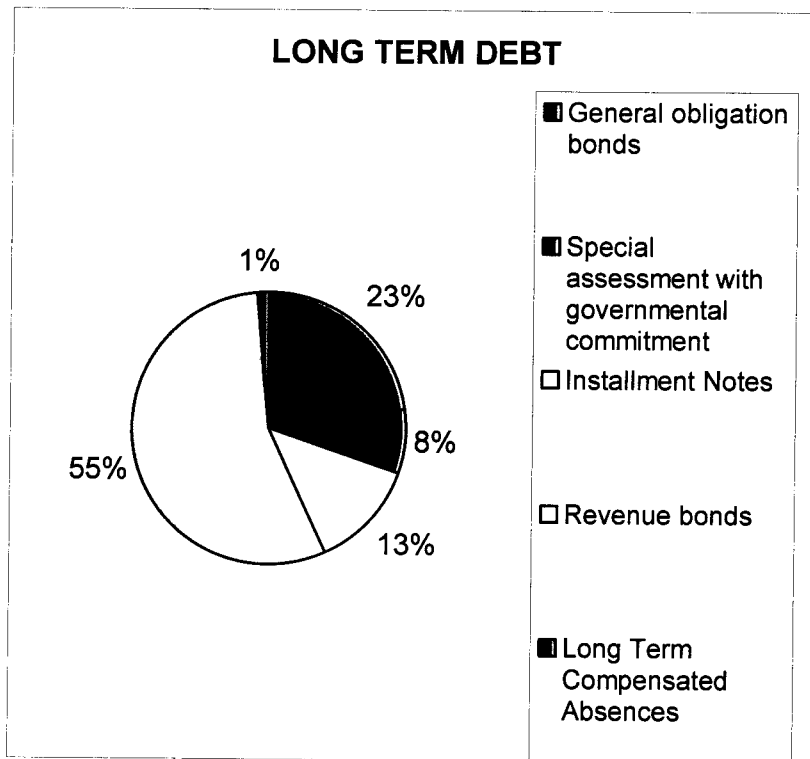
**Long-term debt.** At the end of the current fiscal year, the City had total debt outstanding of \$2,457,521 as follows:

|   | <b>Governmental<br/>activities</b> | <b>Business-type<br/>activities</b> | <b>Total</b>              |
|---|------------------------------------|-------------------------------------|---------------------------|
| General obligation bonds                      | \$ 558,000                         | \$ -                                | \$ 558,000                |
| Special assessment with government commitment | 185,000                            | -                                   | 185,000                   |
| Installment notes                             | 13,900                             | 298,945                             | 312,845                   |
| Revenue bonds                                 | -                                  | 1,365,000                           | 1,365,000                 |
| Long term compensated absences                | 36,676                             | -                                   | 36,676                    |
| <b>Total</b>                                  | <b><u>\$ 793,576</u></b>           | <b><u>\$1,663,945</u></b>           | <b><u>\$2,457,521</u></b> |

The City's total debt decreased by \$183,980 during the current fiscal year. The General Obligation Bonds were issued for the Fire Station. The Governmental activities Installment note was a five-year note for the purchase of a new front end loader. The Business-type activities Installment note was for the equipment at the North WWTP. The Special Assessment debt is the Maplewood Special Assessment District improvements.

Additional information on the City's long-term debt can be found in Note 8 on pages 37-38 of this report.





### **Economic Factors and Next Year's Budgets and Rates**

The following factors were considered in preparing the City's budget for the 2004-05 fiscal year:

- Increased employee wages and benefit cost.
- Increased health insurance cost.
- Increased property tax revenue.
- Increased water and sewer revenues.
- Reduction in Property and Liability Insurance costs.
- No change in state revenue sharing payments if the state budget issues are resolved.

### **Requests for Information**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Treasurer, 227 East Lincoln Avenue, Reed City, Michigan, 49677.

## **BASIC FINANCIAL STATEMENTS**

# CITY OF REED CITY

## STATEMENT OF NET ASSETS

JUNE 30, 2004

|   | Primary Government         |                    |                      | Component Unit                 |
|---|----------------------------|--------------------|----------------------|--------------------------------|
|   | Governmental Business-type |                    |                      | Downtown Development Authority |
|   | Activities                 | Activities         | Total                |                                |
| <b>Assets</b>                                       |                            |                    |                      |                                |
| Cash and cash equivalents                           | \$1,229,083                | \$ 429,540         | \$ 1,658,623         | \$ 641,456                     |
| Accounts receivable                                 | 142,642                    | 245,483            | 388,125              | 5,326                          |
| Special assessment receivable                       | 137,069                    | -                  | 137,069              | -                              |
| Prepaid items and other assets                      | 11,313                     | 2,099              | 13,412               | -                              |
| Inventory   | -                          | 3,715              | 3,715                | -                              |
| Restricted assets                                   |                            |                    |                      |                                |
| Cash and cash equivalents                           | -                          | 368,134            | 368,134              | -                              |
| Bond issuance costs net of accumulated amortization | -                          | 54,290             | 54,290               | -                              |
| Capital assets                                      |                            |                    |                      |                                |
| Land  | 88,994                     | 30,305             | 119,299              | -                              |
| Construction in progress                            | 25,734                     | -                  | 25,734               | -                              |
| Buildings, equipment and fixtures, net              | 1,906,649                  | 8,894,210          | 10,800,859           | -                              |
| <b>Total assets</b>                                 | <b>3,541,484</b>           | <b>10,027,776</b>  | <b>13,569,260</b>    | <b>646,782</b>                 |
| <b>Liabilities</b>                                  |                            |                    |                      |                                |
| Accounts payable                                    | 77,249                     | 77,757             | 155,006              | 5,654                          |
| Accrued liabilities                                 | 82,753                     | 72,188             | 154,941              | 5,445                          |
| Deferred revenue                                    | -                          | 218                | 218                  | -                              |
| Noncurrent liabilities:                             |                            |                    |                      |                                |
| Due within one year                                 | 35,950                     | 64,963             | 100,913              | 30,000                         |
| Due in more than one year                           | 757,626                    | 1,598,982          | 2,356,608            | 1,140,000                      |
| <b>Total liabilities</b>                            | <b>953,578</b>             | <b>1,814,108</b>   | <b>2,767,686</b>     | <b>1,181,099</b>               |
| <b>Net Assets</b>                                   |                            |                    |                      |                                |
| Invested in capital assets, net of related debt     | 1,264,477                  | 7,260,570          | 8,525,047            | -                              |
| Restricted for:                                     |                            |                    |                      |                                |
| Major Streets                                       | 94,872                     | -                  | 94,872               | -                              |
| Local Streets                                       | 49,463                     | -                  | 49,463               | -                              |
| Law enforcement training                            | 1,597                      | -                  | 1,597                | -                              |
| Debt service  | 81,282                     | 343,134            | 424,416              | -                              |
| Nonexpendable perpetual trusts                      |                            |                    |                      |                                |
| Cemetery-expendable portion                         | 8,114                      | -                  | 8,114                | -                              |
| Cemetery - corpus                                   | 33,750                     | -                  | 33,750               | -                              |
| Unrestricted (deficit)                              | 1,054,351                  | 609,964            | 1,664,315            | (534,317)                      |
| <b>Total net assets (deficit)</b>                   | <b>\$2,587,906</b>         | <b>\$8,213,668</b> | <b>\$ 10,801,574</b> | <b>\$ (534,317)</b>            |

The accompanying notes are an integral part of these financial statements.

**CITY OF REED CITY**

**STATEMENT OF ACTIVITIES**

**FOR THE YEAR ENDED JUNE 30, 2004**

| <u><b>Functions / Programs</b></u> | <u><b>Expenses</b></u> | <u><b>Program Revenues</b></u>         |  | <u><b>Net (Expense)<br/>Revenue</b></u> |
|------------------------------------|------------------------|--|--|---|
|                                    |                        | <u><b>Charges<br/>for Services</b></u> | <u><b>Operating<br/>Grants and<br/>Contributions</b></u> |   |
| <b>Primary government</b>          |                        |  |  |   |
| Governmental activities:           |                        |  |  |   |
| General government                 | \$ 594,818             | \$ 173,226                             | \$ 947   | \$ -                                    |
| Public safety                      | 339,942                | 247                                    | 53,965   | -                                       |
| Highways and streets               | 215,682                | -                                      | -  | -                                       |
| Recreation and culture             | 219,218                | 4,838                                  | 73,901   | -                                       |
| Public works                       | 145,865                | 1,507                                  | 144  | -                                       |
| Interest on long-term debt         | 28,504                 | -                                      | -  | -                                       |
| Total governmental activities      | <u>1,544,029</u>       | <u>179,818</u>                         | <u>128,957</u>   | <u>-</u>                                |
| Business-type activities:          |                        |  |  |   |
| Water and Sewer                    | <u>1,603,156</u>       | <u>1,552,871</u>                       | <u>-</u>   | <u>-</u>                                |
| Total primary government           | <u>\$ 3,147,185</u>    | <u>\$ 1,732,689</u>                    | <u>\$ 128,957</u>  | <u>\$ -</u>                             |
| Component unit activities:         |                        |  |  |   |
| Downtown Development Authority     | <u>\$ 479,937</u>      | <u>\$ -</u>                            | <u>\$ -</u>  | <u>\$ -</u>                             |

(Continued)

The accompanying notes are an integral part of these financial statements.

**CITY OF REED CITY**

**STATEMENT OF ACTIVITIES (CONCLUDED)**

**FOR THE YEAR ENDED JUNE 30, 2004**

|  | <b>Primary Government</b>         |                     |                      | <b>Component<br/>Unit</b>                     |
|--|-----------------------------------|---------------------|----------------------|---|
|  | <b>Governmental Business-type</b> |                     |                      | <b>Downtown<br/>Development<br/>Authority</b> |
|  | <b>Activities</b>                 | <b>Activities</b>   | <b>Total</b>         |   |
| <b>Changes in net assets</b>                         |                                   |                     |                      |   |
| Net (expense) revenue                                | \$ (1,235,254)                    | \$ (50,285)         | \$ (1,285,539)       | \$ (479,937)                                  |
| General revenues:                                    |                                   |                     |                      |   |
| Property taxes                                       | 592,353                           | -                   | 592,353              | 518,542                                       |
| State shared revenues                                | 502,358                           | -                   | 502,358              | -   |
| Local sources  | 103,930                           | -                   | 103,930              | -   |
| Gain on sale of capital assets                       | -                                 | 3,512               | 3,512                | -   |
| Interest earnings                                    | 45,781                            | 20,251              | 66,032               | 7,439   |
| Other general revenues                               | 59,203                            | -                   | 59,203               | -   |
| Transfers - internal activities                      | 3,300                             | (3,300)             | -                    | -   |
| Total general revenues and transfers                 | 1,306,925                         | 20,463              | 1,327,388            | 525,981                                       |
| Change in net assets                                 | 71,671                            | (29,822)            | 41,849               | 46,044  |
| Net assets (deficit), beginning of year, as restated | 2,516,235                         | 8,243,490           | 10,759,725           | (580,361)                                     |
| <b>Net assets (deficit), end of year</b>             | <b>\$ 2,587,906</b>               | <b>\$ 8,213,668</b> | <b>\$ 10,801,574</b> | <b>\$ (534,317)</b>                           |

The accompanying notes are an integral part of these financial statements.

**CITY OF REED CITY**

**BALANCE SHEET  
GOVERNMENTAL FUNDS**

**JUNE 30, 2004**

| <u>ASSETS</u>                                     | GENERAL<br>FUND   | MAJOR<br>STREET   | MAPLEWOOD<br>SPECIAL<br>ASSESSMENT | OTHER<br>GOVERNMENTAL<br>FUNDS | TOTAL<br>GOVERNMENTAL<br>FUNDS |
|---|-------------------|-------------------|------------------------------------|--------------------------------|--------------------------------|
| Cash and cash equivalents                         | \$ 300,045        | \$ 100,395        | \$ -                               | \$ 691,327                     | \$ 1,091,767                   |
| Accounts receivable                               | 21,530            | -                 | -                                  | 287                            | 21,817                         |
| Special assessments receivable                    | -                 | -                 | 137,069                            | -                              | 137,069                        |
| Prepaid expenditures                              | 10,204            | 327               | -                                  | 437                            | 10,968                         |
| Advance to other funds                            | -                 | -                 | -                                  | 4,410                          | 4,410                          |
| Due from other governmental units                 | 87,083            | 25,353            | -                                  | 8,389                          | 120,825                        |
| <b><u>TOTAL ASSETS</u></b>                        | <b>\$ 418,862</b> | <b>\$ 126,075</b> | <b>\$ 137,069</b>                  | <b>\$ 704,850</b>              | <b>\$ 1,386,856</b>            |
| <br><b><u>LIABILITIES AND FUND BALANCES</u></b>   |                   |                   |                                    |                                |                                |
| <b>LIABILITIES</b>                                |                   |                   |                                    |                                |                                |
| Accounts payable                                  | \$ 26,478         | \$ 26,685         | \$ -                               | \$ 21,188                      | \$ 74,351                      |
| Accrued liabilities                               | 51,864            | 4,518             | -                                  | 7,250                          | 63,632                         |
| Advance from other funds                          | 4,410             | -                 | -                                  | -                              | 4,410                          |
| Deferred revenue                                  | -                 | -                 | 117,821                            | -                              | 117,821                        |
| <b>TOTAL LIABILITIES</b>                          | <b>82,752</b>     | <b>31,203</b>     | <b>117,821</b>                     | <b>28,438</b>                  | <b>260,214</b>                 |
| <b>FUND BALANCES</b>                              |                   |                   |                                    |                                |                                |
| Reserved for:                                     |                   |                   |                                    |                                |                                |
| Advance to other funds                            | -                 | -                 | -                                  | 4,410                          | 4,410                          |
| Cemetery Perpetual Care                           | -                 | -                 | -                                  | 33,750                         | 33,750                         |
| Debt Service                                      | -                 | -                 | -                                  | 81,282                         | 81,282                         |
| Unreserved  |                   |                   |                                    |                                |                                |
| Designated for subsequent year expenditures       | 17,173            | 9,225             | -                                  | 56,540                         | 82,938                         |
| Undesignated                                      | 318,937           | 85,647            | 19,248                             | -                              | 423,832                        |
| Undesignated, reported in nonmajor                |                   |                   |                                    |                                |                                |
| Special Revenue Funds                             | -                 | -                 | -                                  | 423,081                        | 423,081                        |
| Capital Project Funds                             | -                 | -                 | -                                  | 69,235                         | 69,235                         |
| Permanent Funds                                   | -                 | -                 | -                                  | 8,114                          | 8,114                          |
| <b>TOTAL FUND BALANCES</b>                        | <b>336,110</b>    | <b>94,872</b>     | <b>19,248</b>                      | <b>676,412</b>                 | <b>1,126,642</b>               |
| <b><u>TOTAL LIABILITIES AND FUND BALANCES</u></b> | <b>\$ 418,862</b> | <b>\$ 126,075</b> | <b>\$ 137,069</b>                  | <b>\$ 704,850</b>              | <b>\$ 1,386,856</b>            |

The accompanying notes are an integral part of these financial statements.

**CITY OF REED CITY**

***Reconciliation of Fund Balances on the Balance Sheet  
for Governmental Funds to Net Assets  
of Governmental Activities on the Statement of Net Assets***

***JUNE 30, 2004***

Fund balances - total governmental funds \$ 1,126,642

Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources, and therefore are not reported in the fund statements.

Add - capital assets, net of accumulated depreciation 1,932,383  
Add - land 88,994

Certain assets, such as special assessments receivable are not due and receivable in the current period and therefore are offset with deferred revenue in the fund statements.

Add - deferred revenue on special assessments receivable 117,821

Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. The assets and liabilities of certain internal service funds are included in governmental activities

Add - net assets of governmental activities accounted for in internal service funds 319,776  
Deduct - Capital assets accounted for in internal service funds, net of accumulated depreciation (209,045)

Certain liabilities, such as bonds payable, are not due and payable in the current period, and therefore are not reported in the fund statements:

Deduct - bonds payable (743,000)  
Deduct - compensated absences (36,676)  
Deduct - accrued interest on long-term liabilities (8,989)

Net assets of governmental activities \$ 2,587,906

The accompanying notes are an integral part of these financial statements.

**CITY OF REED CITY**

**STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS**

**FOR THE YEAR ENDED JUNE 30, 2004**

|   | GENERAL<br>FUND   | MAJOR<br>STREET  | MAPLEWOOD<br>SPECIAL<br>ASSESSMENT | OTHER<br>GOVERNMENTAL<br>FUNDS | TOTAL<br>GOVERNMENTAL<br>FUNDS |
|---|-------------------|------------------|------------------------------------|--------------------------------|--------------------------------|
| <b>REVENUES</b>                             |                   |                  |                                    |                                |                                |
| Taxes                                       | \$ 525,406        | \$ -             | \$ -                               | \$ 66,947                      | \$ 592,353                     |
| Licenses and permits                        | 19,251            | -                | -                                  | -                              | 19,251                         |
| Intergovernmental revenue                   |                   |                  |                                    |                                |                                |
| State                                       | 269,514           | 161,694          | -                                  | 68,877                         | 500,085                        |
| Local                                       | 21,930            | -                | -                                  | 82,000                         | 103,930                        |
| Charges for services                        | 91,606            | -                | -                                  | -                              | 91,606                         |
| Fines                                       | 2,249             | -                | -                                  | -                              | 2,249                          |
| Special assessments                         | -                 | -                | 30,960                             | -                              | 30,960                         |
| Miscellaneous                               | 189,468           | 2,310            | 9,488                              | 102,256                        | 303,522                        |
| <b>TOTAL REVENUES</b>                       | <b>1,119,424</b>  | <b>164,004</b>   | <b>40,448</b>                      | <b>320,080</b>                 | <b>1,643,956</b>               |
| <b>EXPENDITURES</b>                         |                   |                  |                                    |                                |                                |
| Current:                                    |                   |                  |                                    |                                |                                |
| Legislative                                 | 23,617            | -                | -                                  | -                              | 23,617                         |
| General government                          | 239,985           | -                | -                                  | 421                            | 240,406                        |
| Public safety                               | 301,179           | -                | -                                  | -                              | 301,179                        |
| Public works                                | 156,554           | 124,482          | -                                  | 73,057                         | 354,093                        |
| Culture and recreation                      | 46,196            | -                | -                                  | 129,601                        | 175,797                        |
| Other governmental functions                | 313,503           | -                | -                                  | -                              | 313,503                        |
| Debt Service:                               |                   |                  |                                    |                                |                                |
| Principal                                   | -                 | -                | -                                  | 29,000                         | 29,000                         |
| Interest                                    | -                 | -                | -                                  | 28,697                         | 28,697                         |
| Capital outlay                              | 8,499             | -                | -                                  | 139,073                        | 147,572                        |
| <b>TOTAL EXPENDITURES</b>                   | <b>1,089,533</b>  | <b>124,482</b>   | <b>-</b>                           | <b>399,849</b>                 | <b>1,613,864</b>               |
| <b>REVENUES OVER (UNDER) EXPENDITURES</b>   | <b>29,891</b>     | <b>39,522</b>    | <b>40,448</b>                      | <b>(79,769)</b>                | <b>30,092</b>                  |
| <b>OTHER FINANCING SOURCES (USES)</b>       |                   |                  |                                    |                                |                                |
| Transfers in                                | 24,659            | -                | 16,717                             | 142,618                        | 183,994                        |
| Transfers out                               | (45,028)          | (29,220)         | (67,822)                           | (38,624)                       | (180,694)                      |
| <b>TOTAL OTHER FINANCING SOURCES (USES)</b> | <b>(20,369)</b>   | <b>(29,220)</b>  | <b>(51,105)</b>                    | <b>103,994</b>                 | <b>3,300</b>                   |
| <b>NET CHANGES IN FUND BALANCES</b>         | <b>9,522</b>      | <b>10,302</b>    | <b>(10,657)</b>                    | <b>24,225</b>                  | <b>33,392</b>                  |
| <b>FUND BALANCES, BEGINNING OF YEAR</b>     | <b>326,588</b>    | <b>84,570</b>    | <b>29,905</b>                      | <b>652,187</b>                 | <b>1,093,250</b>               |
| <b>FUND BALANCES, END OF YEAR</b>           | <b>\$ 336,110</b> | <b>\$ 94,872</b> | <b>\$ 19,248</b>                   | <b>\$ 676,412</b>              | <b>\$ 1,126,642</b>            |

The accompanying notes are an integral part of these financial statements.



# **CITY OF REED CITY**

## ***Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities***

***For the Year Ended June 30, 2004***

Net changes in fund balances - total governmental funds \$ 33,392

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

|                               |          |
|-------------------------------|----------|
| Add - capital outlay          | 139,689  |
| Deduct - depreciation expense | (79,931) |

Special assessments receivable are long-term in nature and are collectable over several years. However, the current receipts are reflected as revenues on the fund statements

|                                |          |
|--------------------------------|----------|
| Deduct - long term receivables | (51,814) |
|--------------------------------|----------|

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets

|   |        |
|---|--------|
| Add - principal payments on long-term liabilities | 29,000 |
|---|--------|

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

|   |         |
|---|---------|
| Add - increase in accrued interest on bonds               | 192     |
| Deduct - decrease in the accrual for compensated absences | (4,754) |

An internal service fund is used by management to charge the costs of certain services to individual governmental funds. The net revenue (expense) of the fund attributable to those funds is reported with governmental activities.

|  |       |
|--|-------|
| Add - income from governmental activities in internal service fund | 5,897 |
|--|-------|

|   |                  |
|---|------------------|
| Change in net assets of governmental activities | <u>\$ 71,671</u> |
|---|------------------|

The accompanying notes are an integral part of these financial statements.

**CITY OF REED CITY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE  
BUDGET AND ACTUAL  
GENERAL FUND**

**FOR THE YEAR ENDED JUNE 30, 2004**

|                                      | ORIGINAL<br>BUDGET | AMENDED<br>BUDGET | ACTUAL     | VARIANCE<br>POSITIVE<br>(NEGATIVE) |
|--------------------------------------|--------------------|-------------------|------------|------------------------------------|
| REVENUES                             |                    |                   |            |                                    |
| Taxes                                | \$ 526,999         | \$ 526,999        | \$ 525,406 | \$ (1,593)                         |
| Licenses and permits                 | 19,300             | 19,800            | 19,251     | (549)                              |
| Intergovernmental revenues:          |                    |                   |            |                                    |
| State                                | 290,636            | 269,184           | 269,514    | 330                                |
| Local                                | 16,130             | 21,930            | 21,930     | -                                  |
| Charges for services                 | 84,400             | 92,065            | 91,606     | (459)                              |
| Fines and forfeits                   | 4,100              | 4,100             | 2,249      | (1,851)                            |
| Miscellaneous                        | 152,920            | 200,772           | 189,468    | (11,304)                           |
| TOTAL REVENUES                       | 1,094,485          | 1,134,850         | 1,119,424  | (15,426)                           |
| EXPENDITURES                         |                    |                   |            |                                    |
| Current                              |                    |                   |            |                                    |
| Legislative                          | 23,746             | 26,746            | 23,617     | 3,129                              |
| General government                   | 243,010            | 250,892           | 239,985    | 10,907                             |
| Public safety                        | 292,428            | 304,678           | 301,179    | 3,499                              |
| Public works                         | 160,825            | 164,832           | 156,554    | 8,278                              |
| Culture and recreation               | 56,440             | 50,325            | 46,196     | 4,129                              |
| Other governmental functions         | 332,950            | 327,000           | 313,503    | 13,497                             |
| Capital outlay                       | 7,275              | 11,010            | 8,499      | 2,511                              |
| TOTAL EXPENDITURES                   | 1,116,674          | 1,135,483         | 1,089,533  | 45,950                             |
| REVENUES OVER (UNDER) EXPENDITURES   | (22,189)           | (633)             | 29,891     | 30,524                             |
| OTHER FINANCING SOURCES (USES)       |                    |                   |            |                                    |
| Transfers in                         | 22,189             | 28,557            | 24,659     | (3,898)                            |
| Transfers (out)                      | -                  | (45,028)          | (45,028)   | -                                  |
| TOTAL OTHER FINANCING SOURCES (USES) | 22,189             | (16,471)          | (20,369)   | (3,898)                            |
| NET CHANGE IN FUND BALANCE           | -                  | (17,104)          | 9,522      | 26,626                             |
| FUND BALANCE, BEGINNING OF YEAR      | 326,588            | 326,588           | 326,588    | -                                  |
| FUND BALANCE, END OF YEAR            | \$ 326,588         | \$ 309,484        | \$ 336,110 | \$ 26,626                          |

The accompanying notes are an integral part of these financial statements.

**CITY OF REED CITY**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGE IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**MAJOR STREETS FUND**

**FOR THE YEAR ENDED JUNE 30, 2004**

|                                    | ORIGINAL<br>BUDGET | AMENDED<br>BUDGET | ACTUAL     | VARIANCE<br>POSITIVE<br>(NEGATIVE) |
|------------------------------------|--------------------|-------------------|------------|------------------------------------|
| REVENUES                           |                    |                   |            |                                    |
| Intergovernmental revenues:        |                    |                   |            |                                    |
| State                              | \$ 142,150         | \$ 148,397        | \$ 161,694 | \$ 13,297                          |
| Miscellaneous                      | 2,000              | 2,000             | 2,310      | 310                                |
| TOTAL REVENUES                     | 144,150            | 150,397           | 164,004    | 13,607                             |
| EXPENDITURES                       |                    |                   |            |                                    |
| Highways and streets               | 142,602            | 148,849           | 124,482    | 24,367                             |
| REVENUES OVER (UNDER) EXPENDITURES | 1,548              | 1,548             | 39,522     | 37,974                             |
| OTHER FINANCING SOURCES (USES)     |                    |                   |            |                                    |
| Transfers (out)                    | (29,220)           | (29,220)          | (29,220)   | -                                  |
| NET CHANGE IN FUND BALANCE         | (27,672)           | (27,672)          | 10,302     | 37,974                             |
| FUND BALANCE, BEGINNING OF YEAR    | 84,570             | 84,570            | 84,570     | -                                  |
| FUND BALANCE, END OF YEAR          | \$ 56,898          | \$ 56,898         | \$ 94,872  | \$ 37,974                          |

The accompanying notes are an integral part of these financial statements.

**CITY OF REED CITY**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGE IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**MAPLEWOOD SPECIAL ASSESSMENT**  
**FOR THE YEAR ENDED JUNE 30, 2004**

|                                      | ORIGINAL<br>BUDGET | AMENDED<br>BUDGET | ACTUAL    | VARIANCE<br>POSITIVE<br>(NEGATIVE) |
|--------------------------------------|--------------------|-------------------|-----------|------------------------------------|
| REVENUES                             |                    |                   |           |                                    |
| Special assessments                  | \$ 20,833          | \$ 28,429         | \$ 30,960 | \$ 2,531                           |
| Miscellaneous                        | 9,390              | 9,488             | 9,488     | -                                  |
| TOTAL REVENUES                       | 30,223             | 37,917            | 40,448    | 2,531                              |
| OTHER FINANCING SOURCES (USES)       |                    |                   |           |                                    |
| Transfers in                         | -                  | -                 | 16,717    | 16,717                             |
| Transfers (out)                      | (30,223)           | (67,822)          | (67,822)  | -                                  |
| TOTAL OTHER FINANCING SOURCES (USES) | (30,223)           | (67,822)          | (51,105)  | 16,717                             |
| NET CHANGE IN FUND BALANCE           | -                  | (29,905)          | (10,657)  | 19,248                             |
| FUND BALANCE, BEGINNING OF YEAR      | 29,905             | 29,905            | 29,905    | -                                  |
| FUND BALANCE, END OF YEAR            | \$ 29,905          | \$ -              | \$ 19,248 | \$ 19,248                          |

The accompanying notes are an integral part of these financial statements.

**CITY OF REED CITY**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**

JUNE 30, 2004

|   | BUSINESS-TYPE<br>ACTIVITIES | GOVERNMENTAL<br>ACTIVITIES  |
|---|-----------------------------|-----------------------------|
|   | ENTERPRISE<br>FUND          | INTERNAL<br>SERVICE<br>FUND |
| <u>ASSETS</u>   |                             |                             |
| CURRENT ASSETS  |                             |                             |
| Cash and cash equivalents                             | \$ 429,540                  | \$ 137,316                  |
| Accounts receivable                                   | 245,483                     | -                           |
| Inventory   | 3,715                       | -                           |
| Bond issuance costs net of accumulated amortization   | 54,290                      | -                           |
| Prepaid expenses                                      | 2,099                       | 345                         |
|   | <hr/>                       | <hr/>                       |
| TOTAL CURRENT ASSETS                                  | 735,127                     | 137,661                     |
| RESTRICTED ASSETS                                     |                             |                             |
| Cash and cash equivalents                             | 368,134                     | -                           |
|   | <hr/>                       | <hr/>                       |
| CAPITAL ASSETS  |                             |                             |
| Land  | 30,305                      | -                           |
| Property plant & equipment                            | 12,447,107                  | -                           |
| Machinery and equipment                               | -                           | 607,391                     |
|   | <hr/>                       | <hr/>                       |
|   | 12,477,412                  | 607,391                     |
| Less: Accumulated depreciation                        | (3,552,897)                 | (398,346)                   |
|   | <hr/>                       | <hr/>                       |
| TOTAL CAPITAL ASSETS                                  | 8,924,515                   | 209,045                     |
|   | <hr/>                       | <hr/>                       |
| TOTAL ASSETS  | 10,027,776                  | 346,706                     |
|   | <hr/>                       | <hr/>                       |
| <u>LIABILITIES</u>                                    |                             |                             |
| CURRENT LIABILITIES                                   |                             |                             |
| Accounts payable                                      | 77,757                      | 2,898                       |
| Accrued liabilities                                   | 72,188                      | 10,132                      |
| Due to other funds                                    | -                           | -                           |
| Due to other governmental units                       | -                           | -                           |
| Deferred revenue                                      | 218                         | -                           |
| Current maturity of notes payable                     | -                           | 6,950                       |
|   | <hr/>                       | <hr/>                       |
| TOTAL CURRENT LIABILITIES                             | 150,163                     | 19,980                      |
| CURRENT LIABILITIES PAYABLE FROM<br>RESTRICTED ASSETS |                             |                             |
| Current maturity of bonds payable                     | 25,000                      | -                           |
|   | <hr/>                       | <hr/>                       |
| NONCURRENT LIABILITIES                                |                             |                             |
| Bonds and notes payable, net of current maturities    | 1,638,945                   | 6,950                       |
|   | <hr/>                       | <hr/>                       |
| TOTAL LIABILITIES                                     | 1,814,108                   | 26,930                      |
|   | <hr/>                       | <hr/>                       |
| <u>NET ASSETS</u>                                     |                             |                             |
| Invested in capital assets, net of related debt       | 7,260,570                   | 195,145                     |
| Restricted for debt service                           | 343,134                     | -                           |
| Unrestricted  | 609,964                     | 124,631                     |
|   | <hr/>                       | <hr/>                       |
| TOTAL NET ASSETS                                      | \$ 8,213,668                | \$ 319,776                  |
|   | <hr/>                       | <hr/>                       |

The accompanying notes are an integral part of these financial statements.

**CITY OF REED CITY**  
**STATEMENT OF REVENUES, EXPENSES**  
**AND CHANGES IN NET ASSETS**  
**PROPRIETARY FUNDS**

**FOR THE YEAR ENDED JUNE 30, 2004**

|   | BUSINESS-TYPE<br>ACTIVITIES | GOVERNMENTAL<br>ACTIVITIES  |
|---|-----------------------------|-----------------------------|
|   | ENTERPRISE<br>FUND          | INTERNAL<br>SERVICE<br>FUND |
| OPERATING REVENUES                      |                             |                             |
| Charges for services                    | \$ 1,342,058                | \$ 155,487                  |
| Miscellaneous                           | 210,813                     | 3,008                       |
|   | <hr/>                       | <hr/>                       |
| TOTAL OPERATING REVENUES                | 1,552,871                   | 158,495                     |
|   | <hr/>                       | <hr/>                       |
| OPERATING EXPENSES                      |                             |                             |
| Personnel services                      | 435,156                     | 58,211                      |
| Contractual services                    | 199,354                     | 20,158                      |
| Materials and supplies                  | 109,264                     | 19,585                      |
| Utilities                               | 242,597                     | 7,002                       |
| Repairs and maintenance                 | 96,432                      | 19,132                      |
| Lease and rental                        | 24,064                      | -                           |
| Depreciation and amortization           | 332,683                     | 33,729                      |
| Miscellaneous                           | 63,535                      | -                           |
|   | <hr/>                       | <hr/>                       |
| TOTAL OPERATING EXPENSES                | 1,503,085                   | 157,817                     |
|   | <hr/>                       | <hr/>                       |
| OPERATING INCOME (LOSS)                 | 49,786                      | 678                         |
|   | <hr/>                       | <hr/>                       |
| NON OPERATING REVENUES (EXPENSES)       |                             |                             |
| Gain on sale of capital assets          | 3,512                       | 6,000                       |
| Interest income                         | 20,251                      | -                           |
| Interest expense                        | (100,071)                   | (781)                       |
|   | <hr/>                       | <hr/>                       |
| TOTAL NON OPERATING REVENUES (EXPENSES) | (76,308)                    | 5,219                       |
|   | <hr/>                       | <hr/>                       |
| NET INCOME (LOSS) BEFORE TRANSFERS      | (26,522)                    | 5,897                       |
| TRANSFERS                               |                             |                             |
| Transfers out                           | (3,300)                     | -                           |
|   | <hr/>                       | <hr/>                       |
| CHANGE IN NET ASSETS                    | (29,822)                    | 5,897                       |
| NET ASSETS, BEGINNING OF YEAR           | 8,243,490                   | 313,879                     |
|   | <hr/>                       | <hr/>                       |
| NET ASSETS, END OF YEAR                 | \$ 8,213,668                | \$ 319,776                  |
|   | <hr/>                       | <hr/>                       |

The accompanying notes are an integral part of these financial statements.

## CITY OF REED CITY

STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2004

|   | BUSINESS-TYPE<br>ACTIVITIES | GOVERNMENTAL<br>ACTIVITIES  |
|---|-----------------------------|-----------------------------|
|   | ENTERPRISE<br>FUND          | INTERNAL<br>SERVICE<br>FUND |
| CASH FLOWS FROM OPERATING ACTIVITIES:   |                             |                             |
| Receipts from interfund services provided   | \$ -                        | \$ 158,495                  |
| Receipts from customers and users   | 1,452,123                   | -                           |
| Payments to suppliers   | (716,399)                   | (61,513)                    |
| Payments to employees   | (435,156)                   | (58,210)                    |
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES   | 300,568                     | 38,772                      |
| CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES  |                             |                             |
| Due from other funds  | 214                         | 5,483                       |
| Due to other funds  | (1,042)                     | -                           |
| Advance to component units  | 56,697                      | -                           |
| Transfers (out)   | (3,300)                     | -                           |
| NET CASH PROVIDED BY (USED IN) NON-CAPITAL<br>FINANCING ACTIVITIES  | 52,569                      | 5,483                       |
| CASH FLOWS FROM CAPITAL AND RELATED<br>FINANCING ACTIVITIES   |                             |                             |
| Acquisition of capital assets   | (59,419)                    | (49,034)                    |
| Proceeds from sale of capital assets  | 3,512                       | 6,000                       |
| Proceeds of bond issue  | 435,000                     | -                           |
| Bond issuance cost  | (22,719)                    | -                           |
| Principal paid on bonds   | (67,783)                    | (6,951)                     |
| Payment on refunded bonds   | (520,000)                   | -                           |
| Interest and fiscal charges paid  | (100,071)                   | (781)                       |
| NET CASH PROVIDED BY (USED IN) CAPITAL AND<br>RELATED FINANCING ACTIVITIES                                  | (331,480)                   | (50,766)                    |
| CASH FLOWS FROM INVESTING ACTIVITIES  |                             |                             |
| Interest earned on investments  | 20,251                      | -                           |
| NET INCREASE (DECREASE) IN CASH AND<br>CASH EQUIVALENTS   | 41,908                      | (6,511)                     |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR  | 755,766                     | 143,827                     |
| CASH AND CASH EQUIVALENTS, END OF YEAR  | \$ 797,674                  | \$ 137,316                  |
| CASH FLOWS FROM OPERATING ACTIVITIES  |                             |                             |
| Operating income (loss)   | \$ 49,786                   | \$ 678                      |
| Adjustments to reconcile operating income (loss)<br>to net cash provided by (used in) operating activities: |                             |                             |
| Depreciation and amortization   | 332,683                     | 33,729                      |
| Changes in operating assets and liabilities<br>which provided (used) cash:                                  |                             |                             |
| Accounts receivable   | (98,481)                    | -                           |
| Inventory   | 1,054                       | -                           |
| Prepaid expenses  | 203                         | (100)                       |
| Accounts payable  | 11,831                      | 1,098                       |
| Accrued liabilities   | 5,759                       | 3,367                       |
| Deferred revenue  | (2,267)                     | -                           |
| NET CASH PROVIDED BY (USED IN)<br>OPERATING ACTIVITIES  | \$ 300,568                  | \$ 38,772                   |
| CASH AND CASH EQUIVALENTS ARE CAPTIONED<br>ON THE BALANCE SHEET AS FOLLOWS:                                 |                             |                             |
| Cash and cash equivalents   | \$ 429,540                  | \$ 137,316                  |
| Restricted cash and cash equivalents  | 368,134                     | -                           |
|   | \$ 797,674                  | \$ 137,316                  |

The accompanying notes are an integral part of these financial statements.

***CITY OF REED CITY***  
***FIDUCIARY FUNDS***  
***STATEMENT OF NET ASSETS***  
  
***JUNE 30, 2004***

|                                 | <u>AGENCY<br/>FUNDS</u> |
|---------------------------------|-------------------------|
|                                 |                         |
| <u>ASSETS</u>                   |                         |
| Cash and cash equivalents       | <u>\$ 16,073</u>        |
|                                 |                         |
| <u>LIABILITIES</u>              |                         |
| Accounts payable                | \$ 554                  |
| Due to other governmental units | 3,112                   |
| Deposits held for others        | <u>12,407</u>           |
|                                 |                         |
| TOTAL LIABILITIES               | <u>\$ 16,073</u>        |

The accompanying notes are an integral part of these financial statements.



**NOTES TO FINANCIAL STATEMENTS**

**CITY OF REED CITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2004**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the City of Reed City conform to generally accepted accounting principles as applicable to governments. The following is a summary of the most significant policies:

***The Reporting Entity***

As required by generally accepted accounting principles, these financial statements present the City and its component unit, an entity for which the City is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the City's operations, so data from these units are combined with data of the primary government. The City has no blended component units. Discretely presented component units are reported in a separate column in the financial statements to emphasize they are legally separate from the City. A separate section of the Basic Financial Statements provides detailed financial information on the discretely presented component unit.

***Discretely Presented Component Unit***

The component unit column in the basic financial statements include the financial data of the Downtown Development Authority. This unit is reported in a separate column and rows to emphasize that it is legally separate from the City.

The members of the governing board of the Authority are appointed by the City Council. The budgets of the Authority must be approved by the City Council, and the City has the ability to significantly influence its operations. Financial statements are not separately issued for the component unit.

***Government-wide and Fund Financial Statements***

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

Likewise, the *primary government* is reported separately from the *component unit* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

**CITY OF REED CITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2004**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Government-wide and Fund Financial Statements (Continued)***

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

***Measurement Focus, Basis of Accounting, and Financial Statement Presentation***

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. After March 1 of each year, the County pays the City, and is responsible for collecting, any outstanding real property taxes as of that date. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Property taxes, intergovernmental revenue, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all the financial resources of the general government, except those required to be accounted for in another fund.

The *Major Street Fund* is used to account for motor fuel tax revenue which is restricted for maintenance and construction of major streets.

The *Maplewood Special Assessment Fund* is used to account for the collection and disbursement of the Maplewood special assessment district.

**CITY OF REED CITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2004**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)***

The City reports the following major proprietary fund:

The *Sewer and Water Enterprise Fund* is used to account for the operations of the City's sewer and water department that provides sewer and water services to most residents of the City on a user charge basis.

Additionally, the City reports the following fund types:

The *Special Revenue Funds* are used to account for proceeds from specific revenue sources (other than perpetual trusts or capital projects) and related expenditures which are restricted for specific purposes by administrative action or law.

The *Debt Service Funds* account for the resources accumulated and payments made for principal and interest on long-term debt of governmental funds.

The *Capital Projects Funds* are used to account for the accumulation and disbursement of funds for capital projects.

The *Permanent Fund* is used to account for resources that are legally restricted to the extent that only earnings, and not principal may be used for purposes that support the City programs.

The *Internal Service Fund* accounts for equipment and vehicle purchases, repairs and maintenance provided to the City departments on a cost reimbursement basis.

The *Agency Funds* are used to account for assets held in an agency capacity on behalf of outside parties, including other governments.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges for services. The principal operating revenues of the City's internal service funds are charges to City departments for equipment utilization and insurance coverage. Operating expenses for the enterprise funds include depreciation on capital assets, labor, supplies and contracted services. Operating expenses for the internal funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

**CITY OF REED CITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2004**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Budgets and Budgetary Accounting***

Comparisons to budget are presented for General and Special Revenue Funds. General and Special Revenue Funds adopt a legal budget with remaining funds maintaining budgets as a management control device. The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to May 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1.
2. Public hearings are conducted to obtain taxpayer comments.
3. By the second week of May the budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed for the government fund types as a management control device.
5. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). Annual budgets lapse at fiscal year end.
6. Adoption and amendments of all budgets used by the City are governed by Public Act 621, which was followed during the year ended June 30, 2004. The appropriations resolution is based on the projected expenditures budget of the department heads of the City. Any amendment to the original budget must meet the requirements of Public Act 621. Any revisions that alter the total expenditures of any fund must be approved by the City Council. The City Manager is authorized to transfer budgeted amounts within an activity subject to the condition that the total expenditures do not exceed the approved appropriations by activity. Supplemental appropriations were necessary during the year.

***Budgets and Budgetary Accounting***

Budgets for expenditures are adopted on an activity level basis in the General Fund and by function in the Special Revenue funds. Thus, expenditures may not legally exceed the budgeted amounts by activity for the General Fund and by function for the Special Revenue funds.

***Cash and Cash Equivalents***

For the purpose of the statement of cash flows, the City considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

***Restricted Assets***

Certain resources set aside for repayment of bonds and to meet bond covenants, are classified as restricted assets on the statement of net assets because their use is limited by applicable bond covenants.

***Receivables***

All receivables are recorded at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

**CITY OF REED CITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2004**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Due to/from Other Funds***

During the course of its operations, the City has numerous transactions between funds to finance operations, to provide services, construct assets and service debt. To the extent that certain transactions between funds had not been paid or received as of fiscal year end, balances of interfund accounts receivable or payable have been recorded.

***Capital Assets***

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental and business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. The amount reported for infrastructure includes only assets added in 2004.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

No interest expense has been incurred or capitalized on capital assets reported in proprietary funds.

Depreciation on capital assets (including infrastructure), is computed using the straight-line method over the following estimated useful lives:

|                                | <u>Years</u> |
|--------------------------------|--------------|
| Land improvements              | 10-20        |
| Buildings                      | 20-50        |
| Office furniture and equipment | 5-15         |
| Vehicles                       | 5-10         |
| Public domain infrastructure   | 10-50        |
| System infrastructure          | 40-50        |

***Deferred Revenue***

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period or for resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred revenue* reported in the governmental funds were as follows:

|  |           |
|--|-----------|
| Special assessment (Maplewood Special Assessment Fund) | \$117,821 |
|--|-----------|

**CITY OF REED CITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2004**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Long-Term Obligations***

In the government-wide financial statements and proprietary fund types in the fund financial statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. For new bond issuances after the implementation of GASB Statement No. 34, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

***Compensated Absences***

Under contracts negotiated with employee groups, individual employees have a vested right to receive payments for unused vacation benefits under formulas and conditions specified in the contracts.

Accumulated vacation time of governmental funds is recorded on statement of net assets and not on the governmental fund balance sheets because it is not expected to be liquidated with expendable available financial resources. Amounts accumulated for proprietary funds have been evaluated and determined to be immaterial to the financial statements as a whole. Consequently, no portion of the liability is reported on the statements of net assets of the enterprise fund.

***Property Taxes***

City property taxes are attached as an enforceable lien on property as of July 1. Taxes are levied July 1 and are due without penalty on or before August 15. These summer tax bills include the City's own property taxes and taxes billed on behalf of the school district (State Education Tax) within the City limits. Real property taxes not collected as of March 1 are returned to the County for collection, which advances the City 100% for the delinquent real property taxes. Collection of delinquent personal property taxes remains the responsibility of the City Treasurer.

Property taxes levied in July of each year are recognized as revenue in that year.

***Interfund Transactions***

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services and to service debt. The accompanying financial statements generally reflect such transactions as transfers. Operating subsidies are also recorded as transfers.

**CITY OF REED CITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2004**

**2. DEFICIT NET ASSETS**

At June 30, 2004, the City had deficit net assets of \$534,317 in the Downtown Development Authority Component Unit. Management plans to eliminate the deficit fund balances through the recognition of revenues in subsequent years.

**3. CASH AND CASH EQUIVALENTS AND INVESTMENTS**

The captions on the statement of net assets relating to cash and cash equivalents, which are all considered deposits for disclosure purposes, are as follows:

|  | <u>Govern-<br/>-mental<br/>Activities</u> | <u>Business-<br/>Type<br/>Activities</u> | <u>Component<br/>Unit<br/>DDA</u> | <u>Fiduciary<br/>Agency<br/>Funds</u> | <u>Total</u>       |
|--|---|--|-----------------------------------|---------------------------------------|--------------------|
| Cash and cash equivalents                        | \$1,229,083                               | \$429,540                                | \$641,456                         | \$16,073                              | \$2,316,152        |
| Restricted assets - cash and cash<br>Equivalents | -   | 368,134                                  | -                                 | -                                     | 368,134            |
|  | <u>\$1,229,083</u>                        | <u>\$797,674</u>                         | <u>\$641,456</u>                  | <u>\$16,073</u>                       | <u>\$2,684,286</u> |

|  | <u>Bank<br/>Balance</u>   |
|--|---------------------------|
| The bank balances of the City's deposits<br>were classified as to risk as follows: |                           |
| Insured (FDIC)   | \$ 300,000                |
| Uninsured, uncollateralized  | 2,542,409                 |
| <b>Total</b>   | <u><b>\$2,842,409</b></u> |

These deposits are in three (3) financial institutions located in Michigan in varying amounts. State policy limits the Treasurer's investing options to financial institutions located in Michigan. All accounts are in the name of the City and a specific fund or common account. They are recorded in City records at fair value. Interest is recorded when earned.

***Investments***

State statutes authorize the City to invest in the following:

- a. Bond, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.



**CITY OF REED CITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2004**

**3. CASH AND CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)**

*Investments (Continued)*

- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended through 12/31/97.

**4. INTERFUND RECEIVABLES AND PAYABLES**

|                            | <u>Due From<br/>Other<br/>Funds</u> | <u>Due to<br/>Other<br/>Funds</u> |
|----------------------------|-------------------------------------|-----------------------------------|
| <b>Advances</b>            |                                     |                                   |
| General Fund               | \$ -                                | \$4,410                           |
| Emergency Contingency Fund | 4,410                               | -                                 |
|                            | <u>\$4,410</u>                      | <u>\$4,410</u>                    |

Interfund balances primarily reflect loans made from funds with cash and cash equivalents to those funds requiring temporary cash flow needs.

**5. INTERFUND TRANSACTIONS**

Transfers in and out for the year ended June 30, 2004 are as follows:

|                              | General<br>Fund | Major<br>Street<br>Fund | Maplewood<br>Special<br>Assessment | Other<br>Governmental<br>Funds | Water/<br>Sewer<br>Fund | Total<br>Transfers<br>Out |
|------------------------------|-----------------|-------------------------|------------------------------------|--------------------------------|-------------------------|---------------------------|
| General Fund                 | \$ -            | \$ -                    | \$ -                               | \$ 45,028                      | \$ -                    | \$ 45,028                 |
| Major Street Fund            | -               | -                       | -                                  | 29,220                         | -                       | 29,220                    |
| Maplewood Special Assessment | -               | -                       | -                                  | 67,822                         | -                       | 67,822                    |
| Other Governmental Funds     | 21,359          | -                       | 16,717                             | 548                            | -                       | 38,624                    |
| Water/Sewer Fund             | 3,300           | -                       | -                                  | -                              | -                       | 3,300                     |
| Total transfers in           | <u>\$24,659</u> | <u>\$ -</u>             | <u>\$16,717</u>                    | <u>\$142,618</u>               | <u>\$ -</u>             | <u>\$183,994</u>          |

Transfers are used to: (1) move unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations and (2) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them.

**CITY OF REED CITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2004**

**6. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2004 was as follows:

|   | <u>Balance<br/>July 1, 2003</u> | <u>Additions</u> | <u>Dispositions</u> | <u>Balance<br/>June 30, 2004</u> |
|---|---------------------------------|------------------|---------------------|----------------------------------|
| <b>Governmental activities</b>              |                                 |                  |                     |                                  |
| Capital assets, not being depreciated:      |                                 |                  |                     |                                  |
| Land  | \$88,994                        | \$ -             | \$ -                | \$ 88,994                        |
| Construction in progress                    | <u>652,155</u>                  | <u>25,734</u>    | <u>652,155</u>      | <u>25,734</u>                    |
| Total capital assets, not being depreciated | <u>741,149</u>                  | <u>25,734</u>    | <u>652,155</u>      | <u>114,728</u>                   |
| Capital assets, being depreciated:          |                                 |                  |                     |                                  |
| Land improvements                           | 142,883                         | -                | -                   | 142,883                          |
| Buildings and improvements                  | 671,277                         | 726,172          | -                   | 1,397,449                        |
| Furniture and equipment                     | 336,529                         | 33,836           | -                   | 370,365                          |
| Motor vehicles                              | 792,357                         | 55,134           | -                   | 847,491                          |
| Infrastructure                              | <u>81,481</u>                   | <u>-</u>         | <u>-</u>            | <u>81,481</u>                    |
| Total capital assets, being depreciated     | <u>2,024,527</u>                | <u>815,142</u>   | <u>-</u>            | <u>2,839,669</u>                 |
| Less accumulated depreciation for:          |                                 |                  |                     |                                  |
| Land improvements                           | 27,601                          | 6,410            | -                   | 34,011                           |
| Buildings and improvements                  | 124,453                         | 22,727           | -                   | 147,180                          |
| Furniture and equipment                     | 109,456                         | 43,583           | -                   | 153,039                          |
| Motor vehicles                              | 547,666                         | 37,337           | -                   | 585,003                          |
| Infrastructure                              | <u>10,184</u>                   | <u>3,603</u>     | <u>-</u>            | <u>13,787</u>                    |
| Total accumulated depreciation              | <u>819,360</u>                  | <u>113,660</u>   | <u>-</u>            | <u>933,020</u>                   |
| Net capital assets, being depreciated       | <u>1,205,167</u>                | <u>701,482</u>   | <u>-</u>            | <u>1,906,649</u>                 |
| Net governmental activities capital assets  | <u>\$1,946,316</u>              | <u>\$727,216</u> | <u>\$652,155</u>    | <u>\$2,021,377</u>               |

**CITY OF REED CITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2004**

**6. CAPITAL ASSETS (CONTINUED)**

|  | <u>Balance<br/>July 1, 2003</u> | <u>Additions</u> | <u>Dispositions</u> | <u>Balance<br/>June 30, 2004</u> |
|--|---------------------------------|------------------|---------------------|----------------------------------|
| <b>Business-type activities</b>              |                                 |                  |                     |                                  |
| Capital assets, not being depreciated:       |                                 |                  |                     |                                  |
| Land   | \$ 30,305                       | \$ -             | \$ -                | \$ 30,305                        |
| Capital assets, being depreciated:           |                                 |                  |                     |                                  |
| Buildings                                    | 28,564                          | -                | -                   | 28,564                           |
| Equipment                                    | 299,798                         | 45,712           | 26,308              | 319,202                          |
| Water system                                 | 1,153,796                       | 6,780            | 740                 | 1,159,836                        |
| Sewer system                                 | 10,932,578                      | 6,927            | -                   | 10,939,505                       |
| Total capital assets, being depreciated      | 12,414,736                      | 59,419           | 27,048              | 12,447,107                       |
| Less accumulated depreciation for:           |                                 |                  |                     |                                  |
| Buildings                                    | 23,294                          | 1,591            | -                   | 24,885                           |
| Equipment                                    | 173,134                         | 16,324           | 26,308              | 163,150                          |
| Water system                                 | 628,475                         | 35,525           | 740                 | 663,260                          |
| Sewer system                                 | 2,424,297                       | 277,305          | -                   | 2,701,602                        |
| Total accumulated depreciation               | 3,249,200                       | 330,745          | 27,048              | 3,552,897                        |
| Net capital assets, being depreciated        | 9,165,536                       | (271,326)        | -                   | 8,894,210                        |
| Business-type activities capital assets, net | \$ 9,195,841                    | \$(271,326)      | \$ -                | \$8,924,515                      |

Depreciation expense was charged to functions/programs of the primary government as follows:

|  |                  |
|--|------------------|
| Governmental activities:   |                  |
| General government   | \$ 12,631        |
| Public safety  | 22,500           |
| Recreation and culture   | 43,000           |
| Public works   | 1,800            |
| Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets | 33,729           |
| Total depreciation expense – governmental activities   | <u>\$113,660</u> |

**CITY OF REED CITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2004**

**7. PENSION PLAN**

***Plan Description***

The City participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multi-employer defined benefit pension plan providing retirement, death and disability benefits covering certain bargaining units. The System is administered by the MERS retirement board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. A publicly available financial report that includes financial statements and required supplementary information for MERS may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling (800) 767-6377.

The City is required to contribute at an actuarially determined rate, which for the current year ranged from 18.37 to 27.74 percent. Employees are not required to contribute to the Plan. The contribution requirements of the City are established and may be amended by the MERS Retirement Board.

For the year ended June 30, 2004, the City's annual pension cost of \$194,722 for MERS was equal to the City's required and actual contributions. The required contribution was determined as part of the initial entry into the plan using the entry age actuarial cost method. The actuarial assumptions included: (a) a rate of return on the investment of present and future assets of eight (8.0) percent; and (b) projected salary increases of four and one-half (4.5) percent per year compounded annually based on inflation, plus a percentage based on an age-related scale to reflect merit, longevity and promotional salary increases. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return and includes an adjustment to reflect fair value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2003, the date of the latest actuarial valuation, was 30 years.

***Plan Description (Continued)***

| <b>Trend Information</b> |  |  |                                       |
|--------------------------|--|--|---------------------------------------|
| <b>Year Ended</b>        | <b>Annual<br/>Pension<br/>Cost (APC)</b> | <b>Percentage<br/>of APC<br/>Contributed</b> | <b>Net<br/>Pension<br/>Obligation</b> |
| 2002                     | \$150,000                                | 100%   | \$ -                                  |
| 2003                     | 183,000                                  | 100%   | -                                     |
| 2004                     | 194,722                                  | 100%   | -                                     |

**Schedule of Funding Progress**

| <b>Actuarial<br/>Valuation<br/>Date</b> | <b>Actuarial<br/>Value of<br/>Assets<br/>(a)</b> | <b>Actuarial<br/>Accrued<br/>Liability (AAL)<br/>Entry Age<br/>(b)</b> | <b>Unfunded<br/>AAL<br/>(UAAL)<br/>(b-a)</b> | <b>Funded<br/>Ratio<br/>Total</b> | <b>Covered<br/>Payroll<br/>(c)</b> | <b>UAAL as a<br/>Percentage<br/>of Covered<br/>Payroll<br/>((b-a)/c)</b> |
|---|--|--|--|-----------------------------------|------------------------------------|--|
| 12/31/2001                              | \$2,018,959                                      | \$3,059,064  | \$1,040,105                                  | 66%                               | \$772,048                          | 135%   |
| 12/31/2002                              | 2,101,324  | 3,075,864  | 974,540                                      | 68%                               | 773,095                            | 126%   |
| 12/31/2003                              | 2,321,349  | 3,538,040  | 1,216,691                                    | 66%                               | 903,856                            | 135%   |

**CITY OF REED CITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2004**

**8. LONG-TERM DEBT**

The following is a summary of debt transactions of the City for the year ended June 30, 2004:

|   | <u>Balance<br/>July 1,<br/>2003</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance<br/>June 30,<br/>2004</u> | <u>Due<br/>Within<br/>One<br/>Year</u> |
|---|-------------------------------------|------------------|------------------|--------------------------------------|--|
| <i><b>Governmental activities</b></i>   |                                     |                  |                  |                                      |  |
| Internal Service Fund   |                                     |                  |                  |                                      |  |
| Equipment installment note due in annual installments of \$6,950 through October 2005; interest at 4.95%.   | \$ 20,851                           | \$ -             | \$ 6,951         | \$ 13,900                            | \$ 6,950                               |
| Governmental Funds  |                                     |                  |                  |                                      |  |
| \$225,000 Special Assessment Bonds of 2002 due in annual installments of \$20,000 to \$25,000 through September 2011; interest at 2.5%.   | 205,000                             | -                | 20,000           | 185,000                              | 20,000                                 |
| \$575,000 Fire Station General Obligation Bonds of 2002 due in annual installments of \$9,000 to \$37,000 through May 2032; interest at 4.625%.   | 567,000                             | -                | 9,000            | 558,000                              | 9,000                                  |
| Long-term compensated absences.   | <u>31,922</u>                       | <u>4,754</u>     | <u>-</u>         | <u>36,676</u>                        | <u>-</u>                               |
| Total governmental activities   | <u>\$824,773</u>                    | <u>\$ 4,754</u>  | <u>\$35,951</u>  | <u>\$793,576</u>                     | <u>\$35,950</u>                        |
| <i><b>Business-type activities</b></i>  |                                     |                  |                  |                                      |  |
| Enterprise Fund   |                                     |                  |                  |                                      |  |
| \$995,000 Water Supply Revenue Bonds of 1990.   | \$ 520,000                          | \$ -             | \$520,000        | \$ -                                 | \$ -                                   |
| \$1,105,000 Water Supply/Wastewater System Revenue Bonds of 1998 due in annual installments of \$40,000 to \$85,000 through November 2019; interest at rates varying from 4.3% to 5.2%.           | 970,000                             | -                | 40,000           | 930,000                              | 40,000                                 |
| \$435,000 Water Supply and Wastewater System Revenue Refunding Bonds of 2004 due in annual installments of \$65,000 to \$80,000 through July 2010; interest at rates varying from 1.87% to 3.84%. | -                                   | 435,000          | -                | 435,000                              | -                                      |

**CITY OF REED CITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2004**

**8. LONG-TERM DEBT (CONTINUED)**

|  | <u>Balance<br/>July 1,<br/>2003</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance<br/>June 30,<br/>2004</u> | <u>Due<br/>Within<br/>One<br/>Year</u> |
|--|-------------------------------------|------------------|------------------|--------------------------------------|--|
| <i>Business-type activities (Continued)</i>  |                                     |                  |                  |                                      |  |
| Equipment installment note due in semi-annual installments of approximately \$20,200 including interest through August 2013; interest at 5.28%.                      | \$ 322,641                          | \$ -             | \$ 23,696        | \$ 298,945                           | \$24,963                               |
| Note payable due monthly through a 50% sewer surcharge reduction.  | 4,087                               | -                | 4,087            | -                                    | -                                      |
| Total business-type activities   | <u>\$1,816,728</u>                  | <u>\$435,000</u> | <u>\$587,783</u> | <u>\$1,663,945</u>                   | <u>\$64,963</u>                        |
| <i>Component unit</i>  |                                     |                  |                  |                                      |  |
| \$1,300,000 Downtown Development Revenue Bonds of 1998 due in annual installments of \$25,000 to \$250,000 through 2017; interest rates varying from 9.25% to 5.75%. | <u>\$1,195,000</u>                  | <u>\$ -</u>      | <u>\$25,000</u>  | <u>\$1,170,000</u>                   | <u>\$30,000</u>                        |

The annual requirements to amortize all debt outstanding (excluding accrued employee benefits) as of June 30, 2004 are as follows:

| <u>Year Ending<br/>June 30,</u> | <u>Governmental Activities</u> |                  | <u>Business-type Activities</u> |                  | <u>Component Unit</u> |                  |
|---------------------------------|--------------------------------|------------------|---------------------------------|------------------|-----------------------|------------------|
|                                 | <u>Principal</u>               | <u>Interest</u>  | <u>Principal</u>                | <u>Interest</u>  | <u>Principal</u>      | <u>Interest</u>  |
| 2005                            | \$ 35,950                      | \$ 31,913        | \$ 64,963                       | \$ 68,473        | \$ 30,000             | \$ 66,425        |
| 2006                            | 36,950                         | 30,851           | 136,299                         | 70,085           | 40,000                | 64,850           |
| 2007                            | 30,000                         | 29,874           | 137,705                         | 65,326           | 40,000                | 62,750           |
| 2008                            | 36,000                         | 28,654           | 144,188                         | 59,992           | 70,000                | 60,650           |
| 2009                            | 37,000                         | 27,227           | 150,749                         | 54,106           | 75,000                | 56,925           |
| 2010-2014                       | 142,000                        | 114,729          | 590,041                         | 177,999          | 440,000               | 216,201          |
| 2015-2019                       | 85,000                         | 94,119           | 355,000                         | 70,330           | 475,000               | 62,676           |
| 2020-2024                       | 110,000                        | 72,151           | 85,000                          | 2,210            | -                     | -                |
| 2025-2029                       | 140,000                        | 44,123           | -                               | -                | -                     | -                |
| 2030-2032                       | 104,000                        | 9,805            | -                               | -                | -                     | -                |
| Total                           | <u>\$756,900</u>               | <u>\$483,446</u> | <u>\$1,663,945</u>              | <u>\$568,521</u> | <u>\$1,170,000</u>    | <u>\$590,477</u> |

**CITY OF REED CITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2004**

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**9. RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. The City carries commercial health, medical, and optical insurance. Statement No. 10 of the Governmental Accounting Standards Board requires that a liability for claims be reported if it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Settled claims have not exceeded commercial insurance coverage in any of the past three fiscal years.

**10. CONCENTRATIONS**

The City has a significant economic dependence on a local corporation that is a major employer, taxpayer, and user of water and sewer services. The following is the percentage of taxes and utilities paid by the corporation:

|                                     | <u>Amount</u> | <u>Percent of<br/>Total</u> |
|-------------------------------------|---------------|-----------------------------|
| Property taxes                      | \$375,044     | 34%                         |
| Water and sewer billing             | 839,409       | 54%                         |
| Water and sewer accounts receivable | 165,551       | 67%                         |

**11. CONTINGENT LIABILITY**

***Wastewater Treatment Plant***

The City owns a parcel of land that is used for its wastewater treatment plant. The parcel was previously owned by Koppers Company which operated a creosote plant treating poles and railroad ties. The Department of Natural Resources has notified Koppers and the City that a previous clean-up of the site is not sufficient and a new hydro geological study must be completed. The Department of Natural Resources claims that the City may be a possible responsible party because it presently owns the property and must be involved in the study and remedial action. Creosote leaking into a river is being purged and treated in the City's wastewater treatment plant. Total costs of the clean-up could be substantial. The City of Reed City and Beazer East, Inc. (the successor to Koppers) have entered into an agreement regarding certain cost sharing which requires, among other things, that the City is to treat water from the wells. There has not been a determination of responsible parties, the cost of the project, or whether the costs will be covered by insurance. Based on these factors, no provision for the contingency is included in the financial statements.

The City has also been notified by the Department of Environmental Quality of certain violations at its wastewater treatment plant. The potential cost to the City as a result of the violations is unknown.

**CITY OF REED CITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2004**

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**11. CONTINGENT LIABILITY (CONTINUED)**

***Landfill***

From September 17, 1968 until March 8, 1985, the City operated a landfill, which is now privately owned and operated. The City, Richmond Sanitary Landfill, Inc. and the Department of Natural Resources entered into a Consent Agreement which outlines certain obligations of the parties regarding the capping of the landfill. The majority of the City's requirements under the Consent Agreement have been completed. It is impossible to determine the financial obligation that the City of Reed City may ultimately have regarding the landfill until further studies and tests are done. If there are contamination problems at the landfill and the City is held liable, the cost to the City could be significant.

***Downtown Development Authority***

The Downtown Development Authority has entered into an agreement to pay \$100,000 per year for ten years beginning in the year ended June 30, 2004, for their portion of a force main project. The payment is contingent on a business in the City maintaining their current production capacity.

**12. RESTATEMENTS**

As of and for the year ended June 30, 2004, the City implemented the following Governmental Accounting Standards Board pronouncements:

***Statements***

- No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*
- No. 37 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*
- No. 38 – *Certain Financial Statement Note Disclosures*

***Interpretation***

- No. 6 – *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*

The above pronouncements are all related to the new financial reporting requirements for state and local governments. These pronouncements are scheduled for a phased implementation (based on the size of the government) through fiscal years ending in 2005. The City is required to implement the new requirements no later than the fiscal year ending June 30, 2004.



**CITY OF REED CITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2004**

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**12. RESTATEMENTS (CONTINUED)**

The more significant of the changes required by the new standards include:

- Basic financial statements that include:
  - Government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting;
  - Fund financial statements, consisting of a series of statements that focus on a government's major governmental funds and enterprise funds;
  - Schedules to reconcile the fund financial statements to the government-wide financial statements;
  - Budgetary statement and schedules
  - Notes to the basic financial statements

As a result of implementing these pronouncements for the fiscal year ended June 30, 2004, the following restatements were made to beginning net asset accounts.

*Government-wide financial statements.* Beginning net assets for governmental activities was determined as follows:

|   |                           |
|---|---------------------------|
| Fund balances of governmental funds as of June 30, 2003                                   | \$1,093,250               |
| Add: Governmental capital assets, including general fixed assets as of June 30, 2003      | 2,207,319                 |
| Deduct: Accumulated depreciation as of June 30, 2003 on above governmental capital assets | (454,744)                 |
| Add: Special assessment receivables offset with deferred revenue on the fund statements   | 169,635                   |
| Deduct: Long-term debt as of June 30, 2003  | (772,000)                 |
| Deduct: Compensated absences payable as of June 30, 2003                                  | (31,922)                  |
| Add: Net assets of internal service funds   | 313,879                   |
| Deduct: Accrued interest payable on general obligation bonds                              | <u>(9,182)</u>            |
| <b>Governmental net assets, restated, as of July 1, 2003</b>                              | <b><u>\$2,516,235</u></b> |

*Downtown Development Authority.* Beginning net assets was determined as follows:

|  |                            |
|--|----------------------------|
| Fund balances of the Downtown Development Authority as of June 30, 2003                  | \$ 620,191                 |
| Deduct: Long-term debt as of June 30, 2003   | (1,195,000)                |
| Deduct: Accrued interest payable   | <u>(5,552)</u>             |
| <b>Downtown Development Authority net assets (deficit), restated, as of July 1, 2003</b> | <b><u>\$ (580,361)</u></b> |

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**COMBINING AND INDIVIDUAL FUND  
STATEMENTS AND SCHEDULES**

**NONMAJOR GOVERNMENTAL FUNDS**

**CITY OF REED CITY**  
**COMBINING BALANCE SHEETS**  
**NONMAJOR GOVERNMENTAL FUNDS**

JUNE 30, 2004

| ASSETS                                      | SPECIAL REVENUE  |   |                                |                   |                                  |                          |                  |
|---|------------------|---|--------------------------------|-------------------|----------------------------------|--------------------------|------------------|
|   | LOCAL<br>STREETS | COMMUNITY<br>DEVELOPMENT<br>BLOCK GRANT | LAW<br>ENFORCEMENT<br>TRAINING | LIBRARY           | FIRE<br>EQUIPMENT<br>REPLACEMENT | EMERGENCY<br>CONTINGENCY | FIRE<br>BUILDING |
| Cash and cash equivalents                   | \$ 49,495        | \$ -                                    | \$ 1,597                       | \$ 148,355        | \$ 18,140                        | \$ 250,543               | \$ -             |
| Accounts receivable, net of allowance       | -                | -                                       | -                              | 105               | -                                | -                        | -                |
| Prepaid expenditures                        | 243              | -                                       | -                              | 194               | -                                | -                        | -                |
| Advance to other funds                      | -                | -                                       | -                              | -                 | -                                | 4,410                    | -                |
| Due from other governmental units           | 8,389            | -                                       | -                              | -                 | -                                | -                        | -                |
| <b>TOTAL ASSETS</b>                         | <b>\$ 58,127</b> | <b>\$ -</b>                             | <b>\$ 1,597</b>                | <b>\$ 148,654</b> | <b>\$ 18,140</b>                 | <b>\$ 254,953</b>        | <b>\$ -</b>      |
| <br><b>LIABILITIES AND FUND BALANCES</b>    |                  |   |                                |                   |                                  |                          |                  |
| <b>LIABILITIES</b>                          |                  |   |                                |                   |                                  |                          |                  |
| Accounts payable                            | \$ 5,382         | \$ -                                    | \$ -                           | \$ 626            | \$ -                             | \$ -                     | \$ -             |
| Accrued liabilities                         | 3,282            | -                                       | -                              | 3,968             | -                                | -                        | -                |
| <b>TOTAL LIABILITIES</b>                    | <b>8,664</b>     | <b>-</b>                                | <b>-</b>                       | <b>4,594</b>      | <b>-</b>                         | <b>-</b>                 | <b>-</b>         |
| <b>FUND BALANCES</b>                        |                  |   |                                |                   |                                  |                          |                  |
| Reserved for                                |                  |   |                                |                   |                                  |                          |                  |
| Advance to other funds                      | -                | -                                       | -                              | -                 | -                                | 4,410                    | -                |
| Perpetual care                              | -                | -                                       | -                              | -                 | -                                | -                        | -                |
| Unreserved:                                 |                  |   |                                |                   |                                  |                          |                  |
| Designated for subsequent year expenditures | 10,000           | -                                       | 1,900                          | 42,190            | 250                              | -                        | -                |
| Undesignated                                | 39,463           | -                                       | (303)                          | 101,870           | 17,890                           | 250,543                  | -                |
| <b>TOTAL FUND BALANCES</b>                  | <b>49,463</b>    | <b>-</b>                                | <b>1,597</b>                   | <b>144,060</b>    | <b>18,140</b>                    | <b>254,953</b>           | <b>-</b>         |
| <b>TOTAL LIABILITIES AND FUND BALANCES</b>  | <b>\$ 58,127</b> | <b>\$ -</b>                             | <b>\$ 1,597</b>                | <b>\$ 148,654</b> | <b>\$ 18,140</b>                 | <b>\$ 254,953</b>        | <b>\$ -</b>      |

| CAPITAL PROJECTS |                           |                   |                              |                           | DEBT SERVICE            |              | PERMANENT               |            |
|------------------|---------------------------|-------------------|------------------------------|---------------------------|-------------------------|--------------|-------------------------|------------|
| PARK COMMISSION  | EQUIPMENT AND REPLACEMENT | PARKS IMPROVEMENT | MAPLEWOOD SPECIAL ASSESSMENT | FIRE STATION CONSTRUCTION | SPECIAL ASSESSMENT BOND | FIRE STATION | CEMETERY PERPETUAL CARE | TOTAL      |
| \$ 13,618        | \$ 7,257                  | \$ 79,358         | \$ -                         | \$ -                      | \$ 50,907               | \$ 30,193    | \$ 41,864               | \$ 691,327 |
| -                | -                         | -                 | -                            | -                         | -                       | 182          | -                       | 287        |
| -                | -                         | -                 | -                            | -                         | -                       | -            | -                       | 437        |
| -                | -                         | -                 | -                            | -                         | -                       | -            | -                       | 4,410      |
| -                | -                         | -                 | -                            | -                         | -                       | -            | -                       | 8,389      |
| \$ 13,618        | \$ 7,257                  | \$ 79,358         | \$ -                         | \$ -                      | \$ 50,907               | \$ 30,375    | \$ 41,864               | \$ 704,850 |

|                  |                 |                  |             |             |                  |                  |                  |           |                |
|------------------|-----------------|------------------|-------------|-------------|------------------|------------------|------------------|-----------|----------------|
| \$ -             | \$ 1,000        | \$ 14,180        | \$ -        | \$ -        | \$ -             | \$ -             | \$ -             | \$        | 21,188         |
| -                | -               | -                | -           | -           | -                | -                | -                |           | 7,250          |
| -                | 1,000           | 14,180           | -           | -           | -                | -                | -                |           | 28,438         |
| -                | -               | -                | -           | -           | -                | -                | -                |           | 4,410          |
| -                | -               | -                | -           | -           | -                | -                | 33,750           |           | 33,750         |
| -                | 2,200           | -                | -           | -           | -                | -                | -                |           | 56,540         |
| 13,618           | 4,057           | 65,178           | -           | -           | 50,907           | 30,375           | 8,114            |           | 581,712        |
| 13,618           | 6,257           | 65,178           | -           | -           | 50,907           | 30,375           | 41,864           |           | 676,412        |
| <u>\$ 13,618</u> | <u>\$ 7,257</u> | <u>\$ 79,358</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 50,907</u> | <u>\$ 30,375</u> | <u>\$ 41,864</u> | <u>\$</u> | <u>704,850</u> |

**CITY OF REED CITY**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS**

**FOR THE YEAR ENDED JUNE 30, 2004**

|   | LOCAL<br>STREETS | COMMUNITY<br>DEVELOPMENT<br>BLOCK GRANT | LAW<br>ENFORCEMENT<br>TRAINING | LIBRARY        | FIRE<br>EQUIPMENT<br>REPLACEMENT | EMERGENCY<br>CONTINGENCY | FIRE<br>BUILDING |
|---|------------------|---|--------------------------------|----------------|----------------------------------|--------------------------|------------------|
| REVENUES                                    |                  |   |                                |                |                                  |                          |                  |
| Property taxes                              | \$ -             | \$ -                                    | \$ -                           | \$ 30,430      | \$ -                             | \$ -                     | \$ -             |
| Intergovernmental:                          |                  |   |                                |                |                                  |                          |                  |
| State                                       | 68,877           | -                                       | -                              | -              | -                                | -                        | -                |
| Local                                       | -                | -                                       | -                              | -              | -                                | -                        | -                |
| Miscellaneous                               | 1,181            | 6,257                                   | 845                            | 77,057         | 393                              | 5,360                    | 61               |
| <b>TOTAL REVENUES</b>                       | <b>70,058</b>    | <b>6,257</b>                            | <b>845</b>                     | <b>107,487</b> | <b>393</b>                       | <b>5,360</b>             | <b>61</b>        |
| EXPENDITURES                                |                  |   |                                |                |                                  |                          |                  |
| Current:                                    |                  |   |                                |                |                                  |                          |                  |
| General government                          | -                | -                                       | -                              | -              | -                                | -                        | -                |
| Highways and streets                        | 73,057           | -                                       | -                              | -              | -                                | -                        | -                |
| Culture and recreation                      | -                | -                                       | -                              | 117,767        | -                                | -                        | -                |
| Debt Service:                               |                  |   |                                |                |                                  |                          |                  |
| Principal                                   | -                | -                                       | -                              | -              | -                                | -                        | -                |
| Interest                                    | -                | -                                       | -                              | -              | -                                | -                        | -                |
| Capital outlay                              | -                | -                                       | -                              | 21,278         | -                                | -                        | 3,774            |
| <b>TOTAL EXPENDITURES</b>                   | <b>73,057</b>    | <b>-</b>                                | <b>-</b>                       | <b>139,045</b> | <b>-</b>                         | <b>-</b>                 | <b>3,774</b>     |
| REVENUES OVER (UNDER) EXPENDITURES          | (2,999)          | 6,257                                   | 845                            | (31,558)       | 393                              | 5,360                    | (3,713)          |
| OTHER FINANCING SOURCES (USES)              |                  |   |                                |                |                                  |                          |                  |
| Transfers in                                | 29,220           | -                                       | -                              | -              | 270                              | 29,800                   | -                |
| Transfers out                               | -                | (6,257)                                 | (4,000)                        | -              | (1,102)                          | (5,000)                  | (548)            |
| <b>TOTAL OTHER FINANCING SOURCES (USES)</b> | <b>29,220</b>    | <b>(6,257)</b>                          | <b>(4,000)</b>                 | <b>-</b>       | <b>(832)</b>                     | <b>24,800</b>            | <b>(548)</b>     |
| NET CHANGE IN FUND BALANCES                 | 26,221           | -                                       | (3,155)                        | (31,558)       | (439)                            | 30,160                   | (4,261)          |
| FUND BALANCES, BEGINNING OF YEAR            | 23,242           | -                                       | 4,752                          | 175,618        | 18,579                           | 224,793                  | 4,261            |
| FUND BALANCES, END OF YEAR                  | \$ 49,463        | \$ -                                    | \$ 1,597                       | \$ 144,060     | \$ 18,140                        | \$ 254,953               | \$ -             |

| PARK<br>COMMISSION | CAPITAL<br>PROJECTS             |                      |                                    |                                 | DEBT SERVICE                  |                 | PERMANENT                     |      | TOTAL      |
|--------------------|---------------------------------|----------------------|------------------------------------|---------------------------------|-------------------------------|-----------------|-------------------------------|------|------------|
|                    | EQUIPMENT<br>AND<br>REPLACEMENT | PARKS<br>IMPROVEMENT | MAPLEWOOD<br>SPECIAL<br>ASSESSMENT | FIRE<br>STATION<br>CONSTRUCTION | SPECIAL<br>ASSESSMENT<br>BOND | FIRE<br>STATION | CEMETERY<br>PERPETUAL<br>CARE |      |            |
| \$ -               | \$ -                            | \$ -                 | \$ -                               | \$ -                            | \$ -                          | \$ -            | 36,517                        | \$ - | 66,947     |
| -                  | -                               | -                    | -                                  | -                               | -                             | -               | -                             | -    | 68,877     |
| 7,000              |                                 | 75,000               |                                    |                                 |                               |                 |                               |      | 82,000     |
| 8,221              | 261                             | 683                  | 32                                 | -                               | 27                            | 177             | 1,701                         |      | 102,256    |
| 15,221             | 261                             | 75,683               | 32                                 | -                               | 27                            | 36,694          | 1,701                         |      | 320,080    |
| -                  | -                               | -                    | -                                  | -                               | -                             | -               | 421                           |      | 421        |
| -                  | -                               | -                    | -                                  | -                               | -                             | -               | -                             |      | 73,057     |
| 11,834             | -                               | -                    | -                                  | -                               | -                             | -               | -                             |      | 129,601    |
| -                  |                                 |                      |                                    |                                 | 20,000                        | 9,000           | -                             |      | 29,000     |
| -                  |                                 |                      |                                    |                                 | 7,516                         | 21,181          | -                             |      | 28,697     |
| -                  | 12,211                          | 25,733               | 2,060                              | 74,017                          | -                             | -               | -                             |      | 139,073    |
| 11,834             | 12,211                          | 25,733               | 2,060                              | 74,017                          | 27,516                        | 30,181          | 421                           |      | 399,849    |
| 3,387              | (11,950)                        | 49,950               | (2,028)                            | (74,017)                        | (27,489)                      | 6,513           | 1,280                         |      | (79,769)   |
| -                  | -                               | 15,228               | -                                  | 278                             | 67,822                        | -               | -                             |      | 142,618    |
| -                  | -                               |                      | (16,717)                           | -                               | -                             | -               | (5,000)                       |      | (38,624)   |
| -                  | -                               | 15,228               | (16,717)                           | 278                             | 67,822                        | -               | (5,000)                       |      | 103,994    |
| 3,387              | (11,950)                        | 65,178               | (18,745)                           | (73,739)                        | 40,333                        | 6,513           | (3,720)                       |      | 24,225     |
| 10,231             | 18,207                          | -                    | 18,745                             | 73,739                          | 10,574                        | 23,862          | 45,584                        |      | 652,187    |
| \$ 13,618          | \$ 6,257                        | \$ 65,178            | \$ -                               | \$ -                            | \$ 50,907                     | \$ 30,375       | \$ 41,864                     | \$ - | \$ 676,412 |

**CITY OF REED CITY**

**SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGE IN FUND BALANCE  
BUDGET AND ACTUAL  
LOCAL STREETS FUND**

**FOR THE YEAR ENDED JUNE 30, 2004**

|                                    | ORIGINAL<br>BUDGET | AMENDED<br>BUDGET | ACTUAL    | VARIANCE<br>POSITIVE<br>(NEGATIVE) |
|------------------------------------|--------------------|-------------------|-----------|------------------------------------|
| REVENUES                           |                    |                   |           |                                    |
| Intergovernmental revenues:        |                    |                   |           |                                    |
| State                              | \$ 50,000          | \$ 53,000         | \$ 68,877 | \$ 15,877                          |
| Miscellaneous                      | 400                | 400               | 1,181     | 781                                |
| TOTAL REVENUES                     | 50,400             | 53,400            | 70,058    | 16,658                             |
| EXPENDITURES                       |                    |                   |           |                                    |
| Highways and streets               | 80,070             | 83,070            | 73,057    | 10,013                             |
| REVENUES OVER (UNDER) EXPENDITURES | (29,670)           | (29,670)          | (2,999)   | 26,671                             |
| OTHER FINANCING SOURCES            |                    |                   |           |                                    |
| Transfers in                       | 29,670             | 29,670            | 29,220    | (450)                              |
| NET CHANGE IN FUND BALANCE         | -                  | -                 | 26,221    | 26,221                             |
| FUND BALANCE, BEGINNING OF YEAR    | 23,242             | 23,242            | 23,242    | -                                  |
| FUND BALANCE, END OF YEAR          | \$ 23,242          | \$ 23,242         | \$ 49,463 | \$ 26,221                          |



**CITY OF REED CITY**

**SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGE IN FUND BALANCE  
BUDGET AND ACTUAL  
COMMUNITY DEVELOPMENT BLOCK GRANT**

**FOR THE YEAR ENDED JUNE 30, 2004**

|                                 | ORIGINAL<br>BUDGET | AMENDED<br>BUDGET | ACTUAL   | VARIANCE<br>POSITIVE<br>(NEGATIVE) |
|---------------------------------|--------------------|-------------------|----------|------------------------------------|
| REVENUES                        |                    |                   |          |                                    |
| Miscellaneous                   | \$ -               | \$ 6,257          | \$ 6,257 | \$ -                               |
| OTHER FINANCING SOURCES         |                    |                   |          |                                    |
| Transfers (out)                 | -                  | (6,257)           | (6,257)  | -                                  |
| NET CHANGE IN FUND BALANCE      | -                  | -                 | -        | -                                  |
| FUND BALANCE, BEGINNING OF YEAR | -                  | -                 | -        | -                                  |
| FUND BALANCE, END OF YEAR       | \$ -               | \$ -              | \$ -     | \$ -                               |

**CITY OF REED CITY**

**SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGE IN FUND BALANCE  
BUDGET AND ACTUAL  
LAW ENFORCEMENT TRAINING**

**FOR THE YEAR ENDED JUNE 30, 2004**

|                                 | ORIGINAL<br>BUDGET | AMENDED<br>BUDGET | ACTUAL   | VARIANCE<br>POSITIVE<br>(NEGATIVE) |
|---------------------------------|--------------------|-------------------|----------|------------------------------------|
| REVENUES                        |                    |                   |          |                                    |
| Miscellaneous                   | \$ 2,000           | \$ 2,000          | \$ 845   | \$ (1,155)                         |
| OTHER FINANCING SOURCES (USES)  |                    |                   |          |                                    |
| Transfers (out)                 | (2,000)            | (4,000)           | (4,000)  | -                                  |
| NET CHANGE IN FUND BALANCE      | -                  | (2,000)           | (3,155)  | (1,155)                            |
| FUND BALANCE, BEGINNING OF YEAR | 4,752              | 4,752             | 4,752    | -                                  |
| FUND BALANCE, END OF YEAR       | \$ 4,752           | \$ 2,752          | \$ 1,597 | \$ (1,155)                         |

**CITY OF REED CITY**  
**SCHEDULE OF REVENUES, EXPENDITURES**  
**AND CHANGE IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**LIBRARY FUND**

**FOR THE YEAR ENDED JUNE 30, 2004**

|                                 | ORIGINAL<br>BUDGET | AMENDED<br>BUDGET | ACTUAL     | VARIANCE<br>POSITIVE<br>(NEGATIVE) |
|---------------------------------|--------------------|-------------------|------------|------------------------------------|
| REVENUES                        |                    |                   |            |                                    |
| Property taxes                  | \$ 29,200          | \$ 29,200         | \$ 30,430  | \$ 1,230                           |
| Miscellaneous                   | 88,100             | 88,100            | 77,057     | (11,043)                           |
| TOTAL REVENUES                  | 117,300            | 117,300           | 107,487    | (9,813)                            |
| EXPENDITURES                    |                    |                   |            |                                    |
| Culture and recreation          | 121,750            | 129,870           | 117,767    | 12,103                             |
| Capital outlay                  | 21,000             | 21,450            | 21,278     | 172                                |
| TOTAL EXPENDITURES              | 142,750            | 151,320           | 139,045    | 12,275                             |
| NET CHANGE IN FUND BALANCE      | (25,450)           | (34,020)          | (31,558)   | 2,462                              |
| FUND BALANCE, BEGINNING OF YEAR | 175,618            | 175,618           | 175,618    | -                                  |
| FUND BALANCE, END OF YEAR       | \$ 150,168         | \$ 141,598        | \$ 144,060 | \$ 2,462                           |

**CITY OF REED CITY**

**SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGE IN FUND BALANCE  
BUDGET AND ACTUAL  
FIRE EQUIPMENT REPLACEMENT**

**FOR THE YEAR ENDED JUNE 30, 2004**

|                                      | ORIGINAL<br>BUDGET | AMENDED<br>BUDGET | ACTUAL    | VARIANCE<br>POSITIVE<br>(NEGATIVE) |
|--------------------------------------|--------------------|-------------------|-----------|------------------------------------|
| REVENUES                             |                    |                   |           |                                    |
| Miscellaneous                        | \$ 250             | \$ 250            | \$ 393    | \$ 143                             |
| OTHER FINANCING SOURCES (USES)       |                    |                   |           |                                    |
| Transfers in                         | -                  | 271               | 270       | (1)                                |
| Transfers (out)                      | (5,000)            | (5,000)           | (1,102)   | 3,898                              |
| TOTAL OTHER FINANCING SOURCES (USES) | (5,000)            | (4,729)           | (832)     | 3,897                              |
| NET CHANGE IN FUND BALANCE           | (4,750)            | (4,479)           | (439)     | 4,040                              |
| FUND BALANCE, BEGINNING OF YEAR      | 18,579             | 18,579            | 18,579    | -                                  |
| FUND BALANCE, END OF YEAR            | \$ 13,829          | \$ 14,100         | \$ 18,140 | \$ 4,040                           |

**CITY OF REED CITY**  
**SCHEDULE OF REVENUES, EXPENDITURES**  
**AND CHANGE IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**EMERGENCY CONTINGENCY**

**FOR THE YEAR ENDED JUNE 30, 2004**

|                                      | ORIGINAL<br>BUDGET | AMENDED<br>BUDGET | ACTUAL     | VARIANCE<br>POSITIVE<br>(NEGATIVE) |
|--------------------------------------|--------------------|-------------------|------------|------------------------------------|
| REVENUES                             |                    |                   |            |                                    |
| Miscellaneous                        | \$ 5,000           | \$ 5,000          | \$ 5,360   | \$ 360                             |
| EXPENDITURES                         |                    |                   |            |                                    |
| General government                   | 5,000              | 29,800            | -          | 29,800                             |
| REVENUES OVER (UNDER) EXPENDITURES   | -                  | (24,800)          | 5,360      | 30,160                             |
| OTHER FINANCING SOURCES (USES)       |                    |                   |            |                                    |
| Transfers in                         | -                  | 29,800            | 29,800     | -                                  |
| Transfers (out)                      | -                  | (5,000)           | (5,000)    | -                                  |
| TOTAL OTHER FINANCING SOURCES (USES) | -                  | 24,800            | 24,800     | -                                  |
| NET CHANGE IN FUND BALANCE           | -                  | -                 | 30,160     | 30,160                             |
| FUND BALANCE, BEGINNING OF YEAR      | 224,793            | 224,793           | 224,793    | -                                  |
| FUND BALANCE, END OF YEAR            | \$ 229,793         | \$ 229,793        | \$ 254,953 | \$ 30,160                          |

**CITY OF REED CITY**

**SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGE IN FUND BALANCE  
BUDGET AND ACTUAL  
FIRE BUILDING**

**FOR THE YEAR ENDED JUNE 30, 2004**

|                                     | ORIGINAL<br>BUDGET | AMENDED<br>BUDGET | ACTUAL  | VARIANCE<br>POSITIVE<br>(NEGATIVE) |
|-------------------------------------|--------------------|-------------------|---------|------------------------------------|
| REVENUES                            |                    |                   |         |                                    |
| Miscellaneous                       | \$ 1,100           | \$ 1,100          | \$ 61   | \$ (1,039)                         |
| EXPENDITURES                        |                    |                   |         |                                    |
| Capital outlay                      | -                  | 4,944             | 3,774   | 1,170                              |
| REVENUES OVER (UNDER) EXPENDITURES  | 1,100              | (3,844)           | (3,713) | 131                                |
| OTHER FINANCING SOURCES (USES)      |                    |                   |         |                                    |
| Transfers (out)                     | (5,494)            | (550)             | (548)   | 2                                  |
| NET CHANGE IN FUND BALANCE          | (4,394)            | (4,394)           | (4,261) | 133                                |
| FUND BALANCE, BEGINNING OF YEAR     | 4,261              | 4,261             | 4,261   | -                                  |
| FUND BALANCE (DEFICIT), END OF YEAR | \$ (133)           | \$ (133)          | \$ -    | \$ 133                             |

**CITY OF REED CITY**  
**SCHEDULE OF REVENUES, EXPENDITURES**  
**AND CHANGE IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**PARK COMMISSION**

**FOR THE YEAR ENDED JUNE 30, 2004**

|                                    | ORIGINAL<br>BUDGET | AMENDED<br>BUDGET | ACTUAL    | VARIANCE<br>POSITIVE<br>(NEGATIVE) |
|------------------------------------|--------------------|-------------------|-----------|------------------------------------|
| REVENUES                           |                    |                   |           |                                    |
| Intergovernmental revenues:        |                    |                   |           |                                    |
| Local                              | \$ 7,000           | \$ 7,000          | \$ 7,000  | \$ -                               |
| Miscellaneous                      | 2,000              | 5,670             | 8,221     | 2,551                              |
| TOTAL REVENUES                     | 9,000              | 12,670            | 15,221    | 2,551                              |
| EXPENDITURES                       |                    |                   |           |                                    |
| Culture and recreation             | 9,000              | 12,670            | 11,834    | 836                                |
| REVENUES OVER (UNDER) EXPENDITURES | -                  | -                 | 3,387     | 3,387                              |
| OTHER FINANCING SOURCES (USES)     |                    |                   |           |                                    |
| Transfers in                       | -                  | -                 | -         | -                                  |
| NET CHANGE IN FUND BALANCE         | -                  | -                 | 3,387     | 3,387                              |
| FUND BALANCE, BEGINNING OF YEAR    | 10,231             | 10,231            | 10,231    | -                                  |
| FUND BALANCE, END OF YEAR          | \$ 10,231          | \$ 10,231         | \$ 13,618 | \$ 3,387                           |

**FIDUCIARY FUNDS**



**CITY OF REED CITY**  
**FIDUCIARY FUNDS**  
**COMBINING BALANCE SHEET**

**JUNE 30, 2004**

| <u>ASSETS</u>                   | TAX<br>COLLECTION | PAYROLL         | RAILS<br>TO<br>TRAILS | REED CITY<br>HOUSING<br>COMMISSION | OSCEOLA<br>FOUNDATION | TOTALS           |
|---------------------------------|-------------------|-----------------|-----------------------|------------------------------------|-----------------------|------------------|
| Cash and cash equivalents       | \$ 2,252          | \$ 1,110        | \$ 2,832              | \$ -                               | \$ 9,879              | \$ 16,073        |
| <br>                            |                   |                 |                       |                                    |                       |                  |
| <u>LIABILITIES</u>              |                   |                 |                       |                                    |                       |                  |
| Accounts payable                | \$ 250            | \$ -            | \$ 304                | \$ -                               | \$ -                  | \$ 554           |
| Due to other governmental units | 2,002             | 1,110           | -                     | -                                  | -                     | 3,112            |
| Deposits held for others        | -                 | -               | 2,528                 | -                                  | 9,879                 | 12,407           |
| <u>TOTAL LIABILITIES</u>        | <u>\$ 2,252</u>   | <u>\$ 1,110</u> | <u>\$ 2,832</u>       | <u>\$ -</u>                        | <u>\$ 9,879</u>       | <u>\$ 16,073</u> |

**COMPONENT UNIT**

## CITY OF REED CITY

BALANCE SHEET/STATEMENT OF NET ASSETS  
DOWNTOWN DEVELOPMENT AUTHORITY

JUNE 30, 2004

| <u>ASSETS</u>                                  | GENERAL<br>OPERATING<br>FUND | DEBT<br>SERVICE   | CAPITAL<br>PROJECTS | ADJUSTMENTS         | STATEMENT<br>OF NET<br>ASSETS |
|--|------------------------------|-------------------|---------------------|---------------------|-------------------------------|
| ASSETS   |                              |                   |                     |                     |                               |
| Cash and cash equivalents                      | \$ 510,036                   | \$ 131,420        | \$ -                | \$ -                | \$ 641,456                    |
| Accounts receivable                            | 5,326                        | -                 | -                   | -                   | 5,326                         |
| Due from other funds                           | -                            | -                 | 5,354               | -                   | 5,354                         |
| <u>TOTAL ASSETS</u>                            | <u>\$ 515,362</u>            | <u>\$ 131,420</u> | <u>\$ 5,354</u>     | <u>-</u>            | <u>652,136</u>                |
| <u>LIABILITIES AND FUND BALANCE/NET ASSETS</u> |                              |                   |                     |                     |                               |
| LIABILITIES                                    |                              |                   |                     |                     |                               |
| Accounts payable                               | \$ -                         | \$ 300            | \$ 5,354            | -                   | 5,654                         |
| Due to other funds                             | 5,354                        | -                 | -                   | -                   | 5,354                         |
| Accrued interest                               | -                            | -                 | -                   | 5,445               | 5,445                         |
| Bond payable                                   | -                            | -                 | -                   | 1,170,000           | 1,170,000                     |
|  | <u>5,354</u>                 | <u>300</u>        | <u>5,354</u>        | <u>1,175,445</u>    | <u>1,186,453</u>              |
| FUND BALANCE                                   |                              |                   |                     |                     |                               |
| Undesignated                                   | <u>510,008</u>               | <u>131,120</u>    | <u>-</u>            | <u>(641,128)</u>    | <u>-</u>                      |
| <u>TOTAL LIABILITIES AND FUND BALANCE</u>      | <u>\$ 515,362</u>            | <u>\$ 131,420</u> | <u>\$ 5,354</u>     |                     |                               |
| NET ASSETS (DEFICIT)                           |                              |                   |                     |                     |                               |
| Unrestricted                                   |                              |                   |                     | <u>\$ (534,317)</u> | <u>\$ (534,317)</u>           |

**CITY OF REED CITY**

**STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES/NET ASSETS**

**FOR THE YEAR ENDED JUNE 30, 2004**

|   | GENERAL<br>OPERATING<br>FUND | DEBT<br>SERVICE | CAPITAL<br>PROJECTS | ADJUSTMENTS     | STATEMENT<br>OF NET<br>ASSETS |
|---|------------------------------|-----------------|---------------------|-----------------|-------------------------------|
| REVENUES  |                              |                 |                     |                 |                               |
| Taxes   | \$ 518,542                   | \$ -            | \$ -                | \$ -            | \$ 518,542                    |
| Miscellaneous   | 5,673                        | 1,766           | -                   | -               | 7,439                         |
| <b>TOTAL REVENUES</b>   | <b>524,215</b>               | <b>1,766</b>    | <b>-</b>            | <b>-</b>        | <b>525,981</b>                |
| EXPENDITURES  |                              |                 |                     |                 |                               |
| Current   |                              |                 |                     |                 |                               |
| General government  | -                            | -               | 106,728             | -               | 106,728                       |
| Debt service  |                              |                 |                     |                 |                               |
| Principal retirement  | -                            | 25,000          | -                   | (25,000)        | -                             |
| Interest and fiscal charges   | -                            | 67,738          | -                   | (107)           | 67,631                        |
| Capital outlay  | -                            | -               | 305,578             | -               | 305,578                       |
| <b>TOTAL EXPENDITURES</b>   | <b>-</b>                     | <b>92,738</b>   | <b>412,306</b>      | <b>(25,107)</b> | <b>479,937</b>                |
| REVENUES OVER (UNDER) EXPENDITURES                                    | 524,215                      | (90,972)        | (412,306)           | 25,107          | 46,044                        |
| OTHER FINANCING SOURCES   |                              |                 |                     |                 |                               |
| Transfers in  | -                            | 89,561          | 412,306             | -               | 501,867                       |
| Transfers (out)   | (501,867)                    | -               | -                   | -               | (501,867)                     |
| <b>TOTAL OTHER FINANCING SOURCES (USES)</b>                           | <b>(501,867)</b>             | <b>89,561</b>   | <b>412,306</b>      | <b>-</b>        | <b>-</b>                      |
| NET CHANGE IN FUND BALANCES   | 22,348                       | (1,411)         | -                   | (20,937)        |                               |
| CHANGE IN NET ASSETS  |                              |                 |                     | 46,044          | 46,044                        |
| FUND BALANCES/NET ASSETS (DEFICIT),<br>BEGINNING OF YEAR, AS RESTATED | 487,660                      | 132,531         | -                   | (1,200,552)     | (580,361)                     |
| FUND BALANCES/NET ASSETS (DEFICIT),<br>END OF YEAR                    | \$ 510,008                   | \$ 131,120      | \$ -                | \$ (1,175,445)  | \$ (534,317)                  |

**INTERNAL CONTROL AND COMPLIANCE**



# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS***

September 17, 2004

Honorable Mayor and  
Members of the City Council  
City of Reed City, Michigan

We have audited the financial statements of the City of Reed City, Michigan, as of and for the year ended June 30, 2004, and have issued our report thereon dated September 17, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

***Compliance***

As part of obtaining reasonable assurance about whether the City of Reed City, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

***Internal Control Over Financial Reporting***

In planning and performing our audit, we considered the City of Reed City, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the City Council, management, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.